

UNIVERSAL
LIBRARY

OU_164270

UNIVERSAL
LIBRARY

OUP—390—29-4-72--10,000

OSMANIA UNIVERSITY LIBRARY

Call No. 538.942/NS6N Accession No. 1584

Author An Essay in political economy

Title The next five years

This book should be returned on or before the date last marked below.

THE NEXT FIVE YEARS

AN ESSAY

IN POLITICAL AGREEMENT



MACMILLAN AND CO., LIMITED
LONDON • BOMBAY • CALCUTTA • MADRAS
MELBOURNE

THE MACMILLAN COMPANY
NEW YORK • BOSTON • CHICAGO
DALLAS • ATLANTA • SAN FRANCISCO

THE MACMILLAN COMPANY
OF CANADA, LIMITED
TORONTO

THE NEXT FIVE YEARS

AN ESSAY
IN
POLITICAL AGREEMENT

MACMILLAN AND CO., LIMITED
ST. MARTIN'S STREET, LONDON

1935

COPYRIGHT

**PRINTED IN GREAT BRITAIN
BY R. & R. CLARE, LIMITED, EDINBURGH**

FOREWORD

WE AGREE in giving general support to the short-range programme of political action outlined in this book.

A year ago, many of us, drawn from different parties and schools of thought, joined in signing two Manifestos defending the principles of political liberty and democracy and outlining a constructive policy. Since then, a representative group, consisting mainly of signatories of those Manifestos, has considered in a series of meetings how the outlines of the policy there sketched should be filled in. The present book has been written under the directions of this group.

In jointly signing this Foreword and commending the book, we do not commit ourselves to endorsement of every detail of the proposals, nor do we renounce any of our individual views as to the way in which society should ultimately be organized. But we are in agreement on the general policy here proposed, believing that it embodies a far-reaching but attainable programme of action for the next five years.

(Signed)

PROFESSOR LASCELLES ABERCROMBIE
ISHBEL, MARCHIONESS OF ABERDEEN AND TEMAIR
RT. HON. SIR FRANCIS ACLAND M.P.
HORACE G. ALEXANDER
PROFESSOR S. ALEXANDER O.M.

- *†LORD ALLEN OF HURTWOOD
LORD AMULREE
*SIR NORMAN ANGELL
*†W. ARNOLD FORSTER
*MRS CORBETT ASHBY
MISS MARGARET ASHTON
CYRIL ASQUITH
J. H. BADLEY (Headmaster, Bedales School)
GERALD BAILEY
PROFESSOR ERNEST BARKER
RT. HON. G. N. BARNES
HARRISON BARROW
CANON F. R. BARRY
GERALD BARRY
*VERNON BARTLETT
*ROBERT BERNAYS M.P.
NORMAN BIRKETT K.C.
LAURENCE BINYON
BISHOP OF BIRMINGHAM F.R.S.
SIR BASIL BLACKETT (2)
RT. HON. C. W. BOWERMAN
R. A. BRAY
*HENRY BRINTON
*JOHN BROMLEY (General Secretary A.S.L.E.F., Ex-chairman Trade Union Congress)
*†A. BARRATT BROWN (Principal, Ruskin College, Oxford)
SIR MONTAGUE BURTON
DAME ELIZABETH CADBURY
*LAURENCE J. CADBURY
REVEREND A. J. CARLYLE
MISS THELMA CAZALET M.P.
VISCOUNT CECIL OF CHELWOOD (1)
MISS KATHLEEN D. COURTNEY
SIR VALENTINE CRITTALL
*†GEOFFREY CROWTHER
W. B. CURRY (Headmaster, Dartington Hall School)
LIONEL CURTIS (3)

R. C. DAVISON
SIR WYNDHAM DEEDES
R. D. DENMAN M.P.
LORD DICKINSON
CANON F. LEWIS DONALDSON
*A. E. DOUGLAS-SMITH
REV. HERBERT DUNNICO
SIR GEOFFREY ELLIS M.P. (2)
LORD ELTON
*R. C. K. ENSOR
MAJOR C. F. ENTWISTLE M.P.
ST. JOHN ERVINE
RT. HON. H. A. L. FISHER (Warden of New College,
Oxford)
MRS H. A. L. FISHER
HORACE FLEMING
*ISAAC FOOT M.P.
A. G. GARDINER
MAXWELL GARNETT (1)
DR. ALFRED E. GARVIE
DR. G. P. GOOCH
MISS F. M. GRAVES M.P.
CAPT. L. H. GREEN
SIR RICHARD GREGORY F.R.S.
*MISS LYNDIA GRIER (Principal, Lady Margaret Hall,
Oxford)
COLONEL W. A. GRIERSON
*JONATHAN GRIFFIN
*MISS BARBARA GWYER (Principal, St. Hugh's Col-
lege, Oxford)
MISS GRACE HADOW (Principal, Oxford Home Students)
SIR HENRY HADOW
LADY [DANIEL] HALL
J. L. HAMMOND
H. WILSON HARRIS
PROFESSOR JOHN W. HARVEY
T. EDMUND HARVEY
GERALD HEARD

SIR LEONARD HILL
RT. HON. J. W. HILLS M.P.
A. L. HOBHOUSE
J. A. HOBSON
SIR THOMAS HOLLAND
LAURENCE HOUSMAN
LORD HOWARD OF PENRITH
MRS EVA HUBBACK (Principal, Morley College)
CANON F. W. HUTCHINSON
*PROFESSOR JULIAN S. HUXLEY
DR. L. P. JACKS
C. E. M. JOAD
COMMANDER STEPHEN KING-HALL
DAVID C. LAMB (Commissioner, Salvation Army)
*SIR WALTER LAYTON
DR. J. SCOTT LIDGETT
*A. D. LINDSAY (Master of Balliol)
*NOEL KER LINDSAY M.P.
SIR OLIVER LODGE F.R.S.
DAVID LOW
DAME EDITH LYTTTELTON
THE EARL OF LYTTON (1)
*†HAROLD MACMILLAN M.P.
DESMOND MCCARTHY
S. P. B. MAIS
J. J. MALLON
*GEOFFREY LE M. MANDER M.P.
T. B. MARTIN M.P.
A. A. MILNE
*HUGH MOLSON M.P.
LILY MONTAGU
HAROLD J. MORLAND
PROFESSOR J. H. MUIRHEAD
*CAPT. PHILIP MUMFORD
*PROFESSOR GILBERT MURRAY
*LADY MARY MURRAY
CHAS. S. MYERS F.R.S.
SIR WALTER NAPIER

HENRY W. NEVINSON
SIR PERCY NUNN
T. J. O'CONNOR M.P. (2)
C. S. ORWIN (Director, Institute Research Agricultural Economics, Oxford)
GEORGE PEVERETT
MISS E. PICTON-TURBERVILL
*SIR ARTHUR PUGH (General Secretary Iron and Steel Trades Confederation, Ex-chairman T.U.C.)
*MISS ELEANOR RATHBONE M.P.
CANON C. E. RAVEN (Regius Professor Divinity, Cambridge)
*VISCOUNTESS RHONDDA
REV. LEYTON RICHARDS
CANON GUY ROGERS
ARNOLD S. ROWNTREE
*B. SEEBOHM ROWNTREE
LORD RUTHERFORD O.M. F.R.S.
*†SIR ARTHUR SALTER
SIEGFRIED SASSOON
CANON E. G. SAVILE
DR. W. B. SELBIE
PROFESSOR NORMAN KEMP SMITH
NOWELL SMITH
BISHOP OF SOUTHWARK
WICKHAM STEED
CANON TISSINGTON TATLOW
EDWARD THOMPSON
DAME SYBIL THORNDIKE
R. C. TREVELYAN
SIR RAYMOND UNWIN
AYLMER VALLANCE
ANGUS WATSON
H. G. WELLS
*H. GRAHAM WHITE M.P.
MRS M. WINTRINGHAM
MISS H. M. WODEHOUSE (Mistress of Girton College, Cambridge)

H. G. WOOD
SIR EVELYN WRENCH
THE ARCHBISHOP OF YORK
*ALLAN YOUNG

Note.—Among the above signatories those marked * attended one or more of the conferences which initiated and approved the book or signed the letter inviting signatures. Those marked † were members of the drafting committee.

1. Agreement confined to the portion of the book dealing with International Relations. Do not wish to express any opinion on the other proposals.

2. Do not agree with the proposals in Chapter V (Banking and Finance).

3. Agreement limited to Part I.

“LIBERTY AND DEMOCRATIC LEADERSHIP”

25 NORTHMOOR ROAD, OXFORD

June 1935

CONTENTS

	PAGE
FOREWORD	v
INTRODUCTION	1

The Challenge to eliminate war and poverty; and to safeguard liberty and revitalize democratic government.

The new opportunity for political collaboration; old divisions now less relevant.

Improvisation or Design?

PART I: ECONOMIC POLICY

CHAPTER I

ECONOMIC PLANNING	11
-----------------------------	----

The need for economic planning. Meaning and limitations of planning. Planning must be coherent: opportunities lost through lack of this; *e.g.* as regards rubber, wheat, sugar, "ribbon development".

Organization for planning: (a) a Government Planning Committee; (b) an Economic General Staff. Advantages and difficulties of such an organization.

Tasks of the planning organization.

CHAPTER II

TOWARDS A PLAN FOR BRITAIN	23
--------------------------------------	----

Britain surveyed. A complex economic system working faultily; inequalities of wealth.

The Foundations of British Prosperity—industrial development and international commerce. Is the age of expansion over? Reasons for optimism. The effects of economic nationalism.

The Means of Progress. (a) National Development by means of capital expenditure, especially in times of depression. (b) Organization of industry; the increasing concern of the State. (c) Banking and Finance; reform of the monetary and banking system. (d) Foreign Trade; restoration of international commerce and a revival of British export trades, with continuation of a moderate protective tariff. (e) Agriculture; an increase in home production of certain foodstuffs; but an increase in

British export trade will necessitate the avoidance of any drastic or general restriction of imports of food. (f) Social Justice; much still remains to be done, *e.g.* to extend and improve the educational system and to get rid of poverty, malnutrition, the slums. The democratic state must move towards Economic Justice.

CHAPTER III

NATIONAL DEVELOPMENT 40

A threefold need for National Development: (a) to remove the legacy of muddle and waste; (b) to prevent waste for the future; (c) to meet the exceptional needs and opportunities of a period of depression. A twofold policy of National Development: a *long-range* continuous programme and a *short-range* programme for times of depression. The criticisms of public works are either unsound or irrelevant to present circumstances.

A National Development Policy. A National Development Board, to work in collaboration with the Government Planning Committee and with the Economic General Staff. The long-range programme to be financed out of regular revenues allocated to the Board. Short-range programmes to be financed by borrowing.

Projects of National Development. Electrification. Housing; the unsatisfied demand for cheap houses to let; the necessity for centralization of finance, purchase of materials and geographical planning; a National Housing Commission. Roads. Schemes of Local Authorities. Encouragement of Private Works. Town and Country Planning; National Parks; regional authorities with positive and negative powers.

CHAPTER IV

THE ORGANIZATION OF INDUSTRY 70

The Need for Organization. The deficiencies of the system of private enterprise; it fails to assist the depressed industries or to prevent monopoly. But the need for organization is not universal in industry. The aim of planning must be to increase, not to restrict, the production of wealth.

Methods of Organization. An Enabling Act. The need to avoid monopoly. The three monopoly powers. Procedure for approving schemes under an Enabling Act.

The Depressed Industries. The lines of reconstruction.

Public Concerns. A new category wanted in the Companies Acts for gigantic monopoly concerns. The chief prescription is publicity for all their operations.

Public Utilities. Organization for industries peculiarly "affected with the public interest".

Socialized Industries. The conditions and limits of progress in socialization. Transport. Electricity. Insurance. Distribution. Mining royalties. Manufacture of Armaments.

CHAPTER V

BANKING AND FINANCE 97

The Scope of Monetary Policy. An essential element, but not the only essential element in policy.

The Bank of England. Defects of its present constitution. The Governor and Deputy-Governor to be appointed only with the consent of the Government. An Advisory Council representative of industry, commerce, labour, commercial banking and economic science. Extended publicity. The importance of preserving freedom for the day-to-day policy of the Bank, subject to the long-term supervision of the Government.

The Joint-Stock Banks. Criticisms of the joint-stock banks; but any proposals for reform must be tested by the criterion of their probable effect on public confidence in the banks. Reasons against nationalization. Public Utility status, subject to limitation of profit and to supervision by a Banking Commission.

Currency and Credit Policy. The gold standard and a "managed" currency both have defects. A new international system with more stability than the present fluctuations but more flexibility than the gold standard. Domestic credit policy to be directed towards the general objective of a stable price-level.

The Mobilization of Capital. The importance to the community of the mechanism by which savings are converted into capital wealth. The defects of the London Capital Market, especially in regard to issues for domestic industry. A National Investment Board, to undertake the tasks of Regulation and Encouragement. Issuing Houses and Investment Bankers. The status of auditors.

CHAPTER VI

FOREIGN TRADE 125

The Necessity of International Trade. Free Traders and Protectionists can agree that we need more foreign trade than we have at the moment. Reasons for believing a revival in exports is practicable.

The Implications of Trade. Increased exports will involve a resumption of foreign lending and an increase in imports. Britain must deliberately reconcile itself to importing goods which could be made at home. The defects of the present system of tariff-making. Flat Rate Duties. Exceptions for temporary emergencies and for industries of exceptional national importance.

The Means of Expanding Trade. The limitations of the "most-favoured-nation" principle. The disappointing results of bilateral negotiations. The new principle of reciprocity, leading to a Low Tariff Club. Reasons why other countries would welcome, or accept, such a Club. Commercial policy towards the Dominions; and the Colonial Empire. The quota an emergency weapon only.

CHAPTER VII

AGRICULTURE 151

The Place of Agriculture in the National Life. Britain is primarily an industrial and commercial nation, but agriculture is still her largest industry. The true economy of importing food; importation is still the cheapest method. The incalculable benefits of cheap food. The recent slump in prices; a temporary phenomenon.

Principles of Policy. In the circumstances of Great Britain, agricultural policy cannot be founded either upon high prices for food or upon the restriction of imports. The need for discrimination in encouraging agricultural development. Four main methods: (a) An increased demand for foodstuffs; the home farmer supplies the protective foodstuffs which the poor most urgently need. (b) Reform of Food Distribution; the proper function of marketing boards. (c) Increased productive efficiency; the land starved of capital; gradual replacement of the landlord-and-tenant system by public ownership of land. (d) Financial assistance by the State; quotas, tariffs, and levies are justifiable as temporary measures to meet an emergency; but for permanent policy the subsidy is the best method.

Land Settlement. "Back to the Countryside" and "Back to the Land". The difficulties in the way of a large-scale policy of land settlement dictate caution and moderation. Small-holdings for agricultural labourers. Intensive "factory farms". Subsistence homesteads for the depressed areas.

CHAPTER VIII

SOCIAL JUSTICE 177

The equity of the economic system is of equal importance with its productive efficiency. The Labour movement is securely established and generally accepted. Hours of Work; the scope for further reductions of hours, though large, is not unlimited.

The Social Services. The policy of a National Minimum. The existing services, largely through historical accident, are unco-ordinated; the relations between them should be drawn tighter. (1) Unemployment. A threefold confusion: between insurance and relief; between the humanitarian impulse and economy; between central and local administration. The Means Test to be purged of its harshnesses. (2) Old Age. Increase of pensions for those entirely dependent on them. The future burden of old age; the urgent need for a State-organized system of superannuation allowances. (3) Education. The progress of Hadow reorganization; an increase in the school leaving-age is essential on educational and industrial grounds alike. (4) Nutrition. A new responsibility only dimly realized. The beginning with milk. A National Food Policy.

Taxation and Equity. The British tax system is inequitable,

and is not growing less so. The cost of the Social Services is little, if any, greater than the increased taxation imposed on the poor in the last twenty years. Possible future sources of tax revenue: the increment in land values; increased surtax rates on "unearned" income; increased death duties.

PART II: INTERNATIONAL RELATIONS

CHAPTER IX

THE COLLECTIVE PEACE SYSTEM AND ITS ALTERNATIVES 215

Objectives of British Foreign Policy.

Prevention of war: grave present dangers, but elimination of the war system perfectly practicable.

Three possible policies. (a) Armed Isolation, (b) Balance of Power and Alliances, (c) the Collective Peace System.

What the collective system involves: collective building of peace and restraint of war. Collective peace-building outside the League. Present weakness of the Collective System.

Conclusion: British Policy should aim at strengthening the collective peace system, and developing the closest possible collaboration with the United States.

CHAPTER X

CO-OPERATION WITH AMERICA 234

Importance of co-operation between the United States and the British Commonwealth, and between the U.S. and the League. Britain as the link between the U.S. and the League's peace system.

Possible causes of friction: war debts; freedom of the seas; the unpredictability of American foreign policy.

Recent progress: a possible American assurance as to conference with other states in times of crisis.

Conclusion. The essential tie between the U.S. and the British Commonwealth must be maintained.

CHAPTER XI

MAKING THE EXISTING PEACE SYSTEM WORK 244

How can British policy help to strengthen the collective peace system? By helping to ensure that it is (a) widely understood; (b) effectively supported and fully used; (c) developed when circumstances permit.

The need for "education for peace": suppression of freedom of opinion in many countries: the need in this country for democratic leadership in spreading understanding of the collective peace system, its advantages and obligations. If war is

to be prevented, the national policy must be, in its broad lines, predictable.

"Back to the Covenant." Much more important to show that the existing engagements are accepted as binding and that the existing peace organization is really meant to work than to add new engagements or organization.

Using the League: the large benefits that could be derived from spending a little more money on League services; some extensions of these services.

Fulfilling the Covenant. Articles not yet adequately applied, *e.g.* Article VIII (general reduction and limitation of armaments), Art. XVIII (publication of treaties), Art. XIX (peaceful change), Art. XXIII (freedom of communication and equitable treatment of commerce), Minorities.

Principles and technique of the collective system. The crucial importance of real equality of treatment for Germany. The collective system should be in a position to enlist preponderant strength collectively, not against State X, a predetermined country, but against any country which may resort to force in breach of the agreed code of peace.

Conclusion: the collective peace system that exists should be better known, more fully used, more loyally put into effect.

CHAPTER XII

IMPROVING THE COLLECTIVE PEACE SYSTEM . . . 256

Present difficulties.

(1) Renunciation of war. Resort to war, and resort to force; definition of aggression; war resistance.

(2) Peaceful settlement of disputes. The Optional Clause and General Act; the Irish Free State and the principle of arbitration.

(3) Change, but peaceful change. Reducing the need for change; extending the Permanent Court's discretion; decisions on an equity basis; compulsory powers for the League Council; Art. XIX of the Covenant.

(4) Collective security, positive and negative.

(a) Positive security; the organization of peace.

(b) Negative security. The purpose of sanctions; the moral justification for them; the political demand; the technical problem.

Limits of the obligation to co-operate in sanctions; universal and regional obligations; Britain's share.

Other contributions to collective security, *e.g.* guarantees for a Disarmament Convention, limitation of expenditure on armaments, regulation of the arms trade, international ownership or control of civil aviation, perhaps an international air force.

(5) Disarmament. Men; material of land, sea, and air warfare; supervision. The prospects.

EPILOGUE 309

APPENDIX: TWO MANIFESTOS ON LIBERTY AND DEMOCRATIC LEADERSHIP 312

INTRODUCTION

THE CHALLENGE AND THE OPPORTUNITY

This book.—The purpose of this book is to outline a policy on national and international affairs which is far-reaching enough to provide a programme of action for a number of years to come; which is reasonable enough to justify the hope that it will enlist the support necessary to secure its adoption; and which is founded on principles applicable to permanent as well as to temporary needs.

The book deals chiefly with problems of economic organization and with world peace. It does not attempt to cover every sphere of policy: for instance, the political evolution of the British Commonwealth is not dealt with, nor is there any detailed consideration of some outstanding questions of social policy.

Those who, in the Foreword, endorse the book have different political associations, and divergent views as to ultimate doctrine and policy; but they are agreed, without sacrificing principles or ultimate objectives, upon a programme which should be pursued in the years immediately ahead and which would, in their view, be as far-reaching as could in any circumstances be carried through in the lifetime of a single Parliament. The policy advocated in the book, in its broad outline and character, has their general agreement. But such a document cannot, in the nature of the

case, represent the full views of the signatories of the Foreword, nor can those signatories be assumed to agree with each detail of the proposals.

The Challenge.—We believe that the present situation offers a new opportunity and a new challenge: a challenge to give leadership in organizing a world order freed from the menace of war, a challenge to develop an economic system which is freed from poverty and makes full use of the growing material resources of the age for the general advantage, and a challenge to safeguard political liberty and to revitalize democratic government.

The need to master the war danger, and the international anarchy from which it springs, is manifest and urgent. The desire for peace is probably more widespread and conscious now than at any other period in history: but science and invention, exploited by anarchic nationalism, have so increased man's power to destroy mankind and his common inheritance that war has become a graver menace to civilization than can be realized in imagination. Conflicting national policies are being pursued with little regard for the consequences,—as may be judged from the prolonged failure to check competition in armaments. If the nations fail to master this anarchy, if they refuse to accept those curtailments of national sovereignty which are the necessary price of true security, then disaster greater even than that of 1914 will become inevitable.

In its political aspect, the problem of peace is essentially a problem of government: there can be no enduring solution of this problem until there has been created an organic structure of international government which comprehends all those competing and conflicting activities that transcend national frontiers.

Not less urgent than the challenge to master war is the challenge to master poverty: and here the task has become more manageable now than ever before. Science and invention have so increased our power to produce wealth that poverty, in the modern world, is becoming an anachronism. We are challenged to discover the means by which the increasing productivity made possible by modern science and invention can be utilized to raise the standard of life and establish a satisfactory system of production and exchange. Stubborn resistance to the economic and social changes which this situation demands, or even a negative attitude of inertia or timidity, would produce, sooner or later, the inevitable revolt against reactionary complacency. But that wave of political intolerance, whilst failing to solve our economic problems, would be likely to sweep away the civil liberties that we in this country have always prized.

Thus a third outstanding challenge arises from the need to guard political liberty against new menaces, and to fit the democratic system of government for the efficient discharge of new tasks. In many countries political liberty has been suppressed and the democratic system of government has been abandoned. The defence of democracy and of peace is to be found not in a merely negative resistance to movements that menace them but in the abolition of the conditions out of which alone such movements can gain strength.

Most of the signatories of this book have previously subscribed to one or both of two manifestos on this subject which were published in 1934.¹ All of us affirm here our conviction that, without certain liberties and

¹ *Liberty and Democratic Leadership*; see Appendix.

rights, we could not regard any organization of society as a tolerable one. We believe in government by persuasion; we are determined that, if we can prevent it, government based on discussion shall not give way in this country to government by dictatorial violence. But we recognize that the democratic system is on its trial: if it is to prove capable of achieving new tasks more complex than those for which it was built up, it must be courageously led and it must in some respects be refashioned.

A special responsibility rests upon this country, one of the surviving strongholds of the democratic system, to demonstrate that that system can adapt itself to new needs, and that a political system is more surely founded upon a free and educated public opinion, democratically led, than upon any authoritative régime.

The Opportunity.—We believe that, besides this new challenge to political action, there is now a new opportunity for political collaboration.

There are of course profound differences of opinion and of interest which cannot now be resolved. But there is no reason why travellers whose ultimate destinations are diverse should not travel together so long as their direction is the same, if they can agree as to the choice of route and rate of advance. And we believe that, dispersed now among the political parties or owing allegiance to no party, there are enough people who agree upon the kind of policy that should be pursued in the years immediately ahead to afford adequate, and indeed overwhelming, support for a programme of action such as we have outlined. To secure the required co-operation, no compromise on principle or on ultimate objective is needed, but only a reasonable spirit of

accommodation in the determination of priorities and in the choice of methods. The great mass of the public in this country, and the most active personalities in each party, are united, we believe, in desiring to conserve what in the world of to-day stand out as the distinctive features of our political heritage—the principles of liberty and political equality; and at the same time they desire to secure greater economic equality and the more effective subordination of every sectional interest and activity to the general public interest. There is widespread agreement, also, that peace should be sought, not by way of isolation nor by way of the balance of power and exclusive alliances, but by way of collective action for the organization of peace and prevention of war.

Old Divisions now Irrelevant.—The rival principles and catch-words which marked the lines of political cleavage in the past are to a large extent irrelevant to the real issues now.

The historic controversy between individualism and socialism—between the idea of a wholly competitive capitalistic system and one of State ownership, regulation, and control—appears largely beside the mark, if regarded with a realistic appreciation of immediate needs. For it is clear that our actual system will in any case be a mixed one for many years to come; our economy will comprise, with great variety of degree and method, both direct State ownership and control, and management by public and semi-public concerns, and also a sphere in which private competitive enterprise will continue within a framework of appropriate public regulation.

Again, the old issue between Free Trade and Protection should no longer prove an insuperable obstacle to

such co-operation as we have in mind. Free-traders, without abandoning their ultimate doctrine, do not contend that complete and unilateral free trade is now a practical objective of policy. They are prepared, we believe, to judge tariff policy by its character and its object: they are prepared, broadly speaking, to accept a policy which is genuinely devoted to enlarging external trade and to establishing it upon more stable foundations by means of reciprocal agreements and mutual concessions; and they are prepared to accept a policy such as we outline in Chapter VI as the necessary counterpart of improved organization and efficiency in the domestic industrial system. Nor, on the other hand, will protectionists deny that any encouragement of the home market by such means as a tariff must be compatible, in its extent and in its method, with the restoration of those export trades in which there are now hundreds of thousands of untransferable unemployed.

Improvisation or Design.—In short, so far as there are differences which cannot be bridged over for the purposes of practical co-operation on a short-term programme, the cleavage now follows new lines. We have not attempted to meet the views of those who, instead of desiring more coherent design in our political and social system, are content to trust rather to improvisation. There are those who virtually assume that man cannot control his economic future, or master the forces making for war, by rational, constructive, and collective effort; who, because they despair of success in so ambitious a task, or because they desire the pursuit of national policies which are really incompatible with peace, or because they cling jealously to inherited privileges now inadmissible, desire to

reverse the whole trend of recent development, or else to "muddle through" by successive improvisations as each emergency occurs, with a mystic faith in the ability of natural forces or instinctive human action to reinstate a workable system.

On the other hand, there are those who believe that we can and must master international anarchy and get rid of the war system, by organized collective action; and that the community can and must deliberately plan, direct, and control—not in detail but in broad outline—the economic development to which innumerable individual activities contribute. These believe that the State, and other institutions associated with the State, must be increasingly active partners both in encouraging and directing economic enterprise.

For our part we believe that the second of these groups comprises most of the active and leading personalities in political life, and that an overwhelming public support for a policy framed on these assumptions can be anticipated. We believe that there is here a sufficient identity of outlook to serve as the basis of co-operation in a practical programme. The correctness of our belief can only be ascertained by framing and publishing such a programme. Hence this book.

.

We repeat that the present situation offers at once a new challenge and a new opportunity. The democratic system of government is on its trial. It will only survive if it can produce a policy equal to the problems of our time and a leadership capable of evoking the co-operation and enthusiasm necessary to carry it through. In these times a special responsibility rests upon informed men of moderate opinion whatever

their party allegiance may be. They must secure the acceptance of a policy of this kind by whatever government may be in office. If they fail to do so, the probabilities are that we shall drift on till the next shock of crisis strikes a weakened system and a despondent population, when the outcome may be a despairing lapse into the tyrannical and barbaric methods that have supervened in similar circumstances elsewhere. A confident leadership with a policy of this kind could, on the other hand, rally the nation to great achievement and create the conditions of prosperous security in which the future evolution of society could be determined by the process of argument and reason. It is because we accept this view of the vital importance of a coherently designed policy at the present time that we have agreed to set aside our differences regarding long-term objectives and to register our agreement upon the immediate plan of action contained in this document.

PART I

ECONOMIC POLICY

CHAPTER I

ECONOMIC PLANNING

WE turn first to questions of economic policy; for in the period in which we live, the main substance of public policy will generally be determined by economic needs.

We approach the subject from the standpoint indicated in the Introduction. We recognize that deep differences of interest and opinion exist as to the ultimate goal of economic and social policy; but we believe that there are enough who agree upon the kind of policy required in the immediate future and upon the need for a coherently planned policy, to afford adequate support for such a programme as we shall try to formulate.

THE NEED FOR ECONOMIC PLANNING

It is evident that the present economic system is in many respects very unsatisfactory. The community has not yet discovered methods by which production can be allowed to expand to full capacity and by which the resources of the nation can be fully employed to enrich man's life and endow his leisure.

The *motive* of profit-making has already, to a greater extent than is commonly realized, ceased to be the mainspring of economic activity in this country: and we think it safe to assume that this tendency will continue in the future, and that the principle of developing

the resources available to the community under public ownership or control for the use of the whole community will be further extended in the years immediately ahead.

Apart from the question of *motive*, we believe that the State will find it increasingly necessary to intervene in order to set the *direction* of the economic activity of the community. In many spheres the free movement of prices still performs its function of directing the available resources of the community into the uses where their employment will be most economic. But in other spheres, the price system is failing to bring equilibrium out of chaos. In these circumstances, the old self-regulating mechanism of a competitive economy, guided by the prospect of profits, is not by itself an adequate regulator of the whole economic system. We cannot in future be content to rely for such direction entirely upon the unco-ordinated decisions of individuals or groups who cannot, in the nature of things, see the nation's problems as a whole. The nation will rightly require of its Government not a merely passive policy of succouring the victims of a defective economy, but a positive, energetic leadership in constructing a new organization for collective planning and direction of its economic life.

We assume, then, that the functions of government in relation to economic activities are increasing and will increase, both in range and complexity. That being so, we assume that there will be need for more varied and flexible methods and a more skilful and scientific treatment than any for which the existing administrative system is as yet equipped.

We need more economic planning.

Planning Coherently.—The first point we wish to

emphasize is that the Government should plan its policy *as a whole*.

It will be well for us to explain just what we mean by "planning".

We do not here envisage that the Government should aim at a "planned economy" which would, throughout every sphere of economic activity, replace the adjustments of the competitive price system by deliberate direction. Such planning as we have in mind would be essential even if the responsibilities assumed by the State were to remain only of the same kind as at present, and it will become all the more necessary if the State accepts such extensions of its responsibilities as we consider both inevitable and desirable. The real alternative to planning in this sense is not freedom but improvization. At present an elaborate and extensive system of State control is being built up haphazard, successive measures being determined by emergencies or by the successful pressure of some sectional interest, and neither related to any general conception or scheme nor co-ordinated between themselves. Such a system is bound to be wasteful and inefficient; it is bound to be injurious to all interests except those which are immediately served, and ultimately, as their range extends, injurious even to those interests.

We realize, of course, that any new economy must be worked out, in some measure, tentatively and piecemeal; and that any general scheme and conception must be provisional and in outline only, receiving its content from experience and practical development. Nevertheless a general scheme, progressively acquiring substance and detail, is absolutely essential as a guide to practical action in different spheres.

Governmental action within a given sphere neces-

sarily affects economic development in other directions. Assuming, therefore, that action is taken at all, we do not escape the problem of choosing the form of general economic structure we desire—we only choose it blindly.

If, for example, we desire to encourage, by tariff, quota, or subsidy, the home production of food which we formerly imported, we necessarily affect our export industries and incur the responsibility of transferring some of those engaged in those industries. Whether, or on what conditions, the nation is right to restrict food imports is discussed later. Our immediate point is that, in any case, such action should be adjusted to some general conception of the whole balance of trade and payments of the country; and that it is obviously imperative that we should attempt to see the situation as a whole and obtain some criterion by which we can judge the comparative gains and losses likely to result from action in a particular sphere.

We will take one other example. We are all agreed, as will appear later, upon the desirability of embarking on a bold and progressive housing policy. But a sound estimate of the numbers of houses required, the type of house, and the placing of the houses, involves a much wider study than a mere "survey of the housing situation": it is not enough to determine the extent to which, in each area, at the moment, there is a deficiency of supply to meet an immediate demand. Houses last for a period during which vast changes may take place in the numbers, the average age, and the family composition of the population,—changes which must be taken into account in a considered housing policy, and which can only be properly estimated by means of careful study of social trends and vital statistics. Vast

changes may occur also in the geographical distribution of the population: and those changes will depend largely upon the Government's economic policy, which may encourage or discourage the export industries and those situated in the ports and distressed areas; which may, or may not, take deliberate action to influence the location of new industries.

Opportunities lost through lack of Coherent Planning.—Opportunities are frequently lost, and new problems are created, through lack of appropriate organization for reviewing particular projects in relation to a coherent plan. Here are three illustrations.

Consider first the original rubber restriction scheme. Whether or not a rubber restriction scheme was desirable, it was certain—and would have been obvious to any appropriately constituted Committee which had been given a week for consideration—that, if a principal group of producers, the Dutch, stood out, the scheme was destined to be a failure. But this and other difficulties were not foreseen, or did not determine action, because the Government had no regular advisory organization to hand; the advice of Civil Servants, inexperienced in this question and otherwise occupied, together with the advice of a few outside experts hastily consulted, was inadequate in view of the fact that this scheme was being pressed by a great organized interest, armed with full technical knowledge and concentrated upon a single objective.

Take, secondly, the State's early incursion into agriculture. Assuming the desirability of encouragement, it is probable, for the reasons we give later, that sugar offered the least results at the greatest cost. It was this sphere in which the State invested first and most heavily. Next to sugar, an expansion (as distinct from

a maintenance) of wheat offered comparatively little either in food produced or in employment provided in relation to its cost; and yet it was to wheat we turned next. Only later, and by methods on which we shall comment below, did the State turn to other forms of production more suitable than these. A general consideration of the agricultural problem on principles we shall suggest would have saved the country from this false start.

Take, thirdly, the scandal of "ribbon development". The State embarked on a great scheme of new arterial road development. It was obvious that these new roads would create greatly increased land values, resulting first from the public expenditure and secondly from the general public development so encouraged, and in no degree whatever from the action or effort of the private owners of the land. It was also obvious that important results affecting the amenities and the location of new houses, as regards both the use of the roads and the public safety, were inevitable. Parliament indeed foresaw these results and specifically posed the problem to the administration by providing powers to acquire not only land for the roads themselves but also adjacent land affected by them. The administration failed completely—and for a characteristic reason. The increase of land values was as certain as anything in human affairs can be; and so were the evils that must result from uncontrolled development. But with a vision limited to a current budget year or two, the administration feared that expenditure might exceed profits; and the power to control housing development entailed the assumption of direct responsibility of a new and onerous kind. A short-visioned and preoccupied administration—with no authority to supplement it with a broader vision—

evaded the responsibility, with results that are now visible and could easily have been foreseen. Only to-day, under external pressure and after immense damage has been done, is an effort, now necessarily expensive, being made to retrieve the situation.

ORGANIZATION FOR PLANNING

We conclude, then, that the Government must plan its economic policy coherently.

But if it is to do that efficiently, it must equip itself adequately for the purpose. Clearly, the Government is not so equipped now, either in its machinery or in its traditional methods. To equip itself for the work which is now imperatively demanded, the Government must, we consider, do two things. It must organize the resources available within the Government's service; and it must establish a machinery through which it can secure the effective help and co-operation of those who are outside the Government service and have the expert knowledge, the experience, and the kind of power which only those engaged in actual direction and management, throughout the different spheres of the country's economic life, can possess.

We propose, therefore, the creation of the following new machinery for the concerted direction of the national economy.

(a) *A Government Planning Committee.*—A small standing committee should be formed, composed of Cabinet Ministers of the highest rank, free from daily departmental responsibility. The Committee should be continuously engaged, with appropriate staff and assistance, in planning policy in its broadest outline. This Committee might consist of the Prime Minister,

and several Ministers without portfolio, these last being chosen not on seniority but for their suitability for the task we now propose.

This Committee should enlarge itself, as occasion requires, by the addition (separately or together) of the Ministers controlling Departments specially concerned with economic policy (Treasury, Board of Trade, Agriculture, Health, Labour). It would, of course, also summon before it appropriate officials or non-official experts.

This Committee would direct the special organs hereafter proposed and would frame general directions as to policy for submission to the Cabinet, and these directions would, after approval, constitute instructions to the appropriate Departments.

(b) *Economic General Staff*.—Side by side with, and subject to, this political Committee, which would necessarily change in personnel with changes of Government, there should be a standing body consisting of persons of more specialized expert knowledge, with more permanent tenure.

This body should, we consider, consist in part of the permanent chiefs of the main economic departments and in part of persons with other relevant experience, such as are to be found among the members of the present Economic Advisory Council; it should include members drawn from the Trades Union and Labour movement. It should have as its Chief Officer an established Civil Servant ranking with the head of a principal department and assisted by a highly qualified staff. The body we contemplate would of course be wholly different in character from the present Economic Advisory Council, with its infrequent meetings and its diminutive permanent staff.

Its task should be—in conjunction with, and subject

to the direction of, the Cabinet Committee—to make a continuous survey of national problems, to make proposals to that Committee, and to work out plans referred to it by the Committee. It should also propose personnel and instructions (for decision by that Committee) for the special bodies suggested hereafter.

This new body should proceed on the principle of enlisting for each specific task the best-qualified experience of those engaged in different spheres of the country's economic life, by the appointment of temporary *ad hoc* committees on the lines already adopted, on a small scale, by the present Economic Advisory Council.

Advantages and Difficulties of such an Organization.—Such a functional body would in no sense be an “economic parliament”, rivalling the territorially and democratically elected Parliament. It would be a functional body, but in such a form as to be subordinate to the Executive and through the Executive to Parliament. Its character and representation, however, would give it a position of importance and prestige of its own. It would work by committees and by plenary sessions. It would be able, through its continuity, to assist succeeding governments in following a coherent and consistent line of policy. And we believe that by such a machinery the nation would be able to overcome the real danger to democratic government, which consists to-day mainly in its inability to cope successfully with economic problems and to provide stability and continuity in its attempts to solve them. An authorized account of the work of this Economic General Staff should be published periodically, and in appropriate cases the Executive should authorize publication of the Staff's reports on matters of general interest.

We realize that there are obvious difficulties and

objections to such a proposal—a possible impairment of ministerial responsibility; official jealousy; even (as the system grows) jealousy on the part of Parliament, owing to some transference of power to a functional, non-elected body; a divided allegiance of the officials, etc. We do not believe, however, that these difficulties are insuperable.

It is impossible to solve the problem that now confronts us unless we realize how complex it is, and how changed are the conditions now from those under which the present administrative machine was developed and to which it is adapted. In such a period as this, when an infinitely complex and flexible economic organization, partly private and partly public, is required, Westminster and Whitehall are not enough.

Parliament itself cannot meet the need. For Parliament—which, if our liberties are to be preserved, must remain the ultimate guardian of the public interest and the ultimate arbiter of the principles within which action must be taken—is too unspecialized; and, being chosen by election on a geographical basis, it must necessarily remain too unspecialized to prescribe in detail. It is this defect which has added such strength to the movement for so-called “Parliaments” selected on a functional basis, which are in fact not real Parliaments at all, since their personnel is in practice chosen by the Executive, and they then become either the instruments of an arbitrary régime or merely impotent. The solution can only be found in a system which provides a functional body but provides it in a form which makes it subordinate through the Executive to Parliament.

Nor can the existing Government Departments meet the need. Departmental Ministers, and their chief official advisers, are necessarily so much occupied with

the details of daily administration, the successive difficulties arising from current events, and the special problems of their respective departments, that they can neither plan long-term policy nor adequately examine and adjust the intricate interaction of measures taken separately by these departments. Moreover, for the tasks of the present, a permanent Civil Service whose members are associated only from outside with economic activities in which they have none of the responsibility of actual management, is not and cannot be made sufficient. It is not enough to incorporate the highest ability in the Service; for an essential part of the qualification for the new tasks is the intimate knowledge which direct and current experience of responsible management can give. The assistance, therefore, of those who have, and continue to have, this experience is indispensable. It can be obtained on one condition—that it is welcomed and utilized. Unless Westminster and Whitehall recognize this and change their attitude accordingly, we consider that no satisfactory solution is possible. But if they do, the objections to such a development as we suggest will disappear, and the difficulties can be overcome.

TASKS OF THE PLANNING ORGANIZATION

An organization of this sort would be in a position to draw up the coherent plan, to apply the “purposive direction”, without which the community will inevitably flounder from muddle to chaos. A permanent Economic General Staff would have a wide enough purview to assemble all the relative facts, while its permanency would ensure that the plan would gradually and consistently develop in a healthy continuity.

The Economic General Staff would have to take account from the outset of certain facts and tendencies. It would note, first, the recent and contemporary facts about the distribution of economic activity between industry, commerce, and agriculture, and between industries which depend mainly upon the home market (and are perhaps capable of depending wholly upon it) and those which must depend (or depend largely) upon export trade. Secondly, it would have to take into account those general trends of economic development in the world which indicate the probable line of progress for an advanced industrial country such as ours. Thirdly, it would have to study population and vital statistics.

On such a basis, the organization would begin to formulate a general conception of the direction in which it would be desirable to encourage economic development. Such a conception would be formed gradually and would change with experience. As it became translated into a tentative plan of action, distinctions would become apparent between the policy necessary during the stage of immediate economic recovery and the policy necessary for effecting more permanent changes in the country's economic structure. The planning organization would relate the first kind of policy to the second—the short-range plan to the long-range plan—and thus, with all its limitations, would serve as a most valuable guide.

Having indicated the case for creating a national planning organization, and the general purpose for which, in our view, that organization would be used, we now outline in the following chapters some of the developments which we hope to see achieved within the framework of a coherent plan.

CHAPTER II

TOWARDS A PLAN FOR BRITAIN

OUR interpretation of the need for "planning" has been made sufficiently clear in the last chapter. By choice or by compulsion we are constantly intervening through our collective organizations in the conduct of the economic life of the community. Since the State has set itself to lead the caravan of our civilization, we believe that the State must form some idea of its immediate destination.

What is that destination? What would we make of Great Britain? The question needs only to be asked for the impossibility of a complete answer to be apparent. We want a richer and a wiser Britain, a country of more genuine leisure and less idle misery, of greater beauty and less squalor. On such generalities we can all agree, but few could paint the picture of the ideal with any great precision. What is certain is that, before we can point the way to what might be, we must first know what is. Any Plan for Great Britain must start with the facts about Great Britain as she is.

In this chapter we do not venture to anticipate the labours of the central body entrusted with the framing of such plans. But it is an essential preliminary to any more detailed recommendations to have some rough sketch-map of the road to be followed. The planning authority would have to start with a survey

of the present state of Great Britain and thence deduce its first steps. In the briefest outline, we may do the same.

BRITAIN SURVEYED

What is the impression which a visitor from another planet, freed from our prejudices and preconceptions, would form of the economy of Great Britain in 1935? He would find, in the first place, a community which has long ago departed from the simple satisfaction of its primary needs and has organized itself in a complex industrial structure, devoting its resources both of men and material to the most specialized tasks and importing a large part of its requirements of food and industrial raw materials from other countries. But two facts about this highly organized industrial mechanism could not fail to strike him most forcibly.

The first would be that the mechanism is working very faultily. About one-sixth of the available labour force is not being used, although it is anxious to earn its living and although the wealth it could contribute to the common pool is much needed. An equivalent proportion of the capital resources of the community is similarly lying idle or being most inadequately employed. It is clear that the economic mechanism is not making nearly the best use it could of its available resources. There is an enormous wastage going on—waste of labour, muscle, and brain, waste of capital, waste of materials, waste of opportunity. The sum-total of the wealth the community produces for distribution among its members is small in comparison with either its needs or its potentialities.

The second outstanding fact which our interplanetary visitor would notice would be the extreme

inequality of wealth existing among the different members of the community—an inequality which appears to have little to do with the social value of the contributions made. The combination of an inadequate total production of wealth and of the unequal distribution of what is actually produced results in a degree of poverty and misery at the lower end of the social scale which is an indictment both of our brains and of our hearts.

The two major economic tasks of the next generation must be to remedy these two crying defects. We must stop the waste in the economic system, and organize the system in such a way that its actual output of wealth approaches more nearly to the practicable maximum. The scandal of unemployed resources of labour and capital co-existing with unsatisfied wants must be ended. And on the other hand we must contrive to get rid of extreme inequalities of wealth and of economic power. We must build up an economic system in which men will not only in fact co-operate for the enrichment of all, but will consider themselves as partners in a joint enterprise rather than tied by the pressure of economic circumstances to a machine they neither accept nor understand.

Our double objective must be to increase both the productivity and the equity of our economic system. The two aims must march together. We cannot allow equity to precede efficiency if it means merely the equality of grinding poverty. And we cannot for long allow efficiency to precede equity if we are to preserve our society from the outraged revolt of the dispossessed.

Foundations of Britain's Prosperity.—Britain has in the past built herself up to a standard of material comfort rarely equalled and still more rarely excelled, by the

practical application of two economic principles. The first was the exploitation of every advantage offered by mechanical invention and scientific ingenuity. Britain was the first nation to bring the machine to the assistance of man's muscles, and throughout the nineteenth century she was the foremost exponent of the principle of the Industrial Revolution. The introduction of labour-saving machinery involves in the first place the displacement of hand labour and in the second place the production of articles in far greater quantities. It can therefore only be justified if the displaced labour finds employment in other directions and if the mass-produced articles can be disposed of. Throughout last century both these conditions were met; the displaced labour did in fact find abundant alternative opportunities for employment, while the enormously increased output of goods found a ready sale.

The second cause of Britain's prosperity in the past was the system of international interchange of goods, which she carried to greater lengths than any other large nation. Just as her great towns were growing rich by supplying highly specialized industrial products in exchange for the food and raw materials of the countryside, so the whole nation gradually transformed itself into the workshop of the world. By the eve of the Great War, Great Britain was devoting no less than one-third of her resources to manufacture for export; she imported two-thirds of her food and a large proportion of her industrial raw materials. It would be idle to deny that the system had certain social and strategic disadvantages. But it would be equally idle to deny that in the century before 1914 it brought the country inestimable economic benefits. If we had been forced to produce all our food at home, if we had been

restricted to our indigenous raw materials, if British industry, instead of specializing on those lines to which it was best suited, had had to disperse its efforts over the whole range of products, the net total of wealth available for distribution among the inhabitants of these islands would, beyond the possibility of a doubt, have been a mere fraction of what it was.

These, then, are the two principles which have inspired our progress in the past; we may call them the principles of Expansion and Exchange. The first question which the planning authority would have to decide would be whether they are to inspire our policy in the future as they have in the past. Both are now called in question.

It is frequently argued that the community has ceased to adjust itself to new developments of technical progress, that labour-saving machinery is now permanently dispossessing labour and permanently increasing unemployment, that the machine is now producing goods in masses greater than can be sold. If these statements were correct, mechanical progress would be doing more harm than good, since it would be condemning the worker to indigent idleness and impoverishing the capitalist by the cut-throat competition of a perpetually glutted market: and in that case it would clearly be necessary to cut down the excessive production and to spread the available work over the largest possible number of workers. For reasons which we set out below, we disagree with this view; we believe that with the aid of the machine the community can look forward to a continued expansion of both production and consumption; there is no reason for assuming that the limits of production have been reached or that the community must perforce accommodate itself as best it

may to the present state of affairs. Our present troubles are not due to chronic over-production; they are a phase of disorganization which if handled properly will pass away without permanently hindering the steady march of expansion.

In the case of the system of international exchange, there is no need to debate whether it is functioning properly. Its defective working is manifest. Everywhere nations are retiring within their shells. Our export trade was never in the post-war years as large as in 1913, but since 1929 it has fallen by between a quarter and a third of the attenuated volume it then had. The export trades show by far the largest and deepest pools of unemployment and stagnation. The principle of Exchange is undoubtedly for the moment less effective than it was. But international trade has not collapsed, nor would it be right to assume without argument that it cannot be restored. We must examine, carefully and objectively, both its immediate benefits and its future prospects. Even to-day we export about £400,000,000 worth of goods every year, in addition to the services our shipping, insurance, and banking industries perform for foreigners. Should we endeavour to increase our intercourse with foreign countries, accept the present total, or subject it to still further restriction? And if we decide for expansion, is there any reasonable prospect of being able to attain our object? Here again is room for debate and need for preliminary decision by the planning authority.

Let us briefly indicate the way in which we believe the planning authority would answer both these groups of questions concerning Expansion and Exchange.

We believe that there is no warrant for the fear that the age of expansion is over. In our opinion,

the world—and Britain in it—can confidently look forward to a future in which the almost infinite wants of mankind will be increasingly satisfied by an economic mechanism whose productivity will progressively increase. We are in no danger of being drowned in a flood of good things nor of being driven to the poor-house by the assistance of the machine. There is no foreseeable limit to the increasing standard of living of the masses, and by the same token no limit to the prospective market for the products of industry.

This general statement of principle needs several supplementary remarks, none of which, however, seriously qualify it. Individual industries, of course, may expand or contract, and contraction may leave a permanent or a temporary condition of over-production in those industries. Such a condition causes both depression and distress in the industries concerned, and a sound national policy will do what it can to alleviate the trouble, without keeping in existence an industry which has ceased to be economic. As railways developed, for example, there was undoubted distress among the industries which had grown up round the earlier forms of transport. The State might legitimately have done something to relieve the distress of the coachmen and bargemen; but it would have been an obvious misapplication of resources to attempt to keep dying industries alive. We must provide, therefore, for individual cases of over-production. But there is no reason to believe that the process of change which dries up the demand for the products of particular industries is also a cause of general distress, or that it hampers the general advance of industry. The labour and capital which have been rendered redundant are moved out into other employments. The clearest de-

monstration of this can be found in the experience of Great Britain between 1923 and 1933. In these years the country was suffering from endemic depression, the loss of overseas markets, an overvalued currency, a restrictive credit policy, and a high degree of immobility of labour. But in spite of these difficulties, new industries were growing up, and old ones expanding, so fast that they provided employment for a number of persons equal not only to those displaced by labour-saving machinery, but also to those who were displaced by the contraction of the depressed industries. Indeed, the total number of persons employed increased in this decade by about half a million. Countless individuals were left high and dry by the receding tides of industrial prosperity, but there was no sign that the volume of employment provided by industry in general was becoming limited. The effects on employment of technical progress thus constitute a social problem rather than an insurmountable economic obstacle. Changes in industrial technique still leave us with victims who must be cared for. But the expansion of the economic machine still continues, and there can be no case for a *general* policy of restriction of output. The maladjustments between Poverty and Plenty cannot be removed by doing away with the Plenty. The only possible basis on which the planning authority could plan for the future is on the assumption of an increase in general demand, which will not only absorb the goods we are now equipped to produce but make possible an indefinite increase both in production and consumption. We are not yet approaching the boundaries of economic expansion or potential demand.

The speed of expansion will, however, be seriously affected by the way in which the planning authority

answers the second group of questions; and by its choice between a revival or a further abandonment of international trade. Invention—which is the origin of economic progress—will not be affected by tariff barriers. But if the world is to develop in self-contained national units, the field in which invention can be exploited will be narrower and the rate of progress will inevitably be slower. Moreover, Great Britain is now largely organized as a trading nation. If in future we are to live as far as possible for ourselves alone, we shall have to carry out a tremendous process of redistribution of our productive resources, and all the progress of the next generation or two might well be needed to accommodate that redistribution. The industries into which the labour and capital will have to be directed would be, almost *ex hypothesi*, less efficient (*i.e.* productive of less wealth per unit of labour expended) than those which would have to contract. This must be so, for we have found it much cheaper in the past to obtain our wheat by making cotton goods and exchanging them for wheat than by growing wheat at home. If in the future our cotton workers are to be turned into wheat farmers, there will necessarily be a loss of productive capacity in the process.

Economic nationalism does not prevent *all* future progress or ultimately interfere with the infinite expansibility of markets. But it does mean, as we show below, that new methods of international trade will have to be devised, that progress will be slower, and that we shall have to devote the efforts of the next generation or so to conserving and consolidating the standard of life to which, with the aid of international interchange, we have already arrived, before we can advance further.

This reasoning could of course be applied to every country in the world. But for Great Britain the advisability of not turning aside from international trade is reinforced by another and far more urgent circumstance. Something like half of the unemployment, both of labour and of capital, from which we are now suffering is directly or indirectly due to the catastrophic decline in international trade, and it is concentrated in those industries and those areas which formerly made their livings by selling overseas. Work can be found for them, and this source of economic wastage stopped, in one of two ways—transfer or trade revival. Unemployed workers can, in the first place, be transferred into new occupations. Now to some extent this is constantly proceeding, and there has been a considerable outflow of labour—if not of capital—from the depressed areas in the past decade. But when the transfer involves, as it does in this case, hundreds of thousands of workers, entire industries and whole districts with all their social capital, their public works, and their costly transport and distributive systems, then the task is hopeless within the space of a generation. If there is no substantial revival of international trade, half of our unemployment problem is likely to remain for the next two decades as a stubborn incubus upon all our efforts towards economic progress. Whether such a revival can be secured is a much more open matter, to which a later chapter of this book is devoted.

These, then, are the answers which we believe the Planning Authority would give to its preliminary problems. Expansion in the twentieth century will possibly not be as rapid as in the nineteenth, but it will nevertheless be the dominating characteristic of

our economic life. And Great Britain will start upon this period of progress with less of a handicap, and advance more rapidly, if international trade can be in some measure rescued from the chaos into which it has fallen in the last few years.

THE MEANS OF PROGRESS

Having made its preliminary decisions about ultimate objectives, the next task of the Planning Authority would be to work out the best means of moving towards them. The remainder of this first part of the present volume is an attempt to indicate the main lines of progress along which the various constituent elements of a rounded economic policy should proceed. We have sought to secure agreement upon the general compass-bearing of the route rather than to plot its every milestone. The next five chapters have been conceived as parts of a whole, and it will therefore be helpful, by way of introduction, briefly to indicate the place which each fills in the completed whole.

(a) *National Development*.—First among the economic duties of the State are those which by their size and scope are outside the purview of any industry or any private interest. The succession of boom and slump, the distribution of the population within the country, national and local amenities—all these are matters external to every individual industry but affecting and influencing all industries. This section of policy we discuss in Chapter III under the title *National Development*. It is the duty of the State to influence the public services and private amenities of the community in such a way as to increase to a maximum both the efficiency of the economic mechanism

and the social welfare of the individual. The most obvious example is the duty of the State to provide an adequate system of roads. Still more important is the establishment and enforcement of a satisfactory standard of housing. There is a growing recognition of the need to extend the sphere of State intervention to cover the whole lay-out of the country. Our population is increasingly crowding into a few large centres to an extent which is uneconomic, unhealthy, socially undesirable, and no longer justifiable by the need to concentrate on the sources of raw materials or the supplies of power. We have awakened to the need for Town and Country Planning too late, but there are still many costly mistakes in the making which could yet be avoided by wise forethought.

National Development is a matter for continuous effort and application. But in a period of depression and idleness the resources of men and material for pursuing such projects are at their greatest, while the need for capital expenditure of this nature is also at a maximum. In a period like the present, therefore, the need for a well thought out and carefully co-ordinated plan of National Development is redoubled.

(b) *Organization of Industry*.—Next comes the need for an organization of industry. The phrase is in itself a departure from earlier ways of thinking. The favourite doctrine of the nineteenth century was built upon the assumption that industry could itself provide all the organization it needed, that the less the State and public policy had to do with the running of industry, apart from a certain rudimentary keeping of the ring, the better both for the State and industry. For our part we believe that over a great part of the industrial field, and for many years to come, the enterprise and

initiative of the entrepreneur will continue to play a large part in the nation's economic life. But that belief must not be allowed to blind us to the fact that in many cases unregulated private enterprise is no longer the most appropriate or successful form of organization. In some cases industries which are faced with the necessity of reducing their size to suit an attenuated market are proving themselves unable to overcome the difficulties so long as they are composed of a large number of competing entities. In other cases the concentration of production in very few hands has made necessary an added watchfulness and new safeguards for the interests of the consumer and the State. In still other cases great industries have grown up which are recognized as being so strongly "affected with the public interest" that the State is entitled to take a very direct interest in their direction.

These problems are discussed in Chapter IV, but two preliminary remarks may not be out of place. The first is that in all our plans for the organization of industry we must never lose sight of the fact that an increasing standard of life in the future can only come through an expansion of the total production of goods of all kinds. Some of the proposals which are frequently put forward for the organization of particular industries have the deliberate object of restricting production; in all cases the placing of control in the hands of a central body brings the possibility of restricting, and can hardly fail to bring the temptation to restrict, production below what the public interest requires. Nobody who is cognizant of the existing chaos in some industries would rule out the restriction of production as a temporary expedient for dealing with the depression of those industries. But

it would be fatal to give every industry, regardless of its condition, a mandate for converting itself into a monopoly. Our course must be one which avoids the evils of anarchic competition on the one hand and restrictive monopoly on the other.

The second preliminary observation is that, since the circumstances of different industries are widely divergent, there is no one plan of organization which can be applied to all industries alike. It is unlikely on the face of it that the same prescription could apply to the cotton industry, with its over-capacity, its top-heavy finance, and its decade and a half of unrelieved depression, and to the chemical industry, centralized, efficient, and at least moderately prosperous. A uniform system of State control would be as unsuitable as the uniform application of complete *laissez-faire*. It is a much more practical line of approach to assume that there will be in the immediate future three or four main species of industrial organization with a number of varieties within each species. We have attempted in Chapter IV to sketch the main features of these leading species.

(c) *Banking and Finance*.—Closely allied to these problems and also to projects of capital expansion is the problem of monetary and banking policy, which forms the theme of Chapter V. We do not subscribe to those doctrines which hold that the sole origin of our present difficulties is to be found in monetary causes, and the sole cure in monetary reforms. But we are equally unwilling to accept the existing monetary system as perfect. Its institutions still need, in some respects, to be fitted into the framework of a society that is attempting to control its own economic destiny, while the objectives of currency and credit policy need to be redefined in view of the disastrous lessons that have

been learned in the school of events during the last few years.

(d) *Foreign Trade*.—Chapters III, IV, and V represent our main proposals for restoring and increasing the productive activity of British domestic industry. But we place an equal reliance, so far as the immediate future is concerned, on the efforts to restore the activity of the export trades which are outlined in Chapter VI. We have frankly adopted the position that an increase of international trade is one of the most promising directions in which British economic revival can proceed. We have arrived at this position not by dogmatic adherence to any economic theory but by a plain consideration of the outstanding facts of British unemployment at the present time. The reader will find that we have not found it necessary to intervene in the controversy of Protection *versus* Free Trade. We have based our proposals on the assumption that Great Britain will continue to have a moderate protective tariff, and we have put forward certain practical suggestions for reconciling such a tariff with the continued existence and revived prosperity of our vitally important export trades.

(e) *Agriculture*.—Nevertheless, it must be recognized that an increase in exports, if it can be secured, will necessarily be accompanied by some increase in imports. Since a very large part of our imports consists of foodstuffs, a policy of reviving international trade imposes certain limitations on agricultural policy, to which we turn in Chapter VII. But it would be an entire misconception of the facts to suppose that British agriculture can only be assisted at the expense of imports. The great activity in agricultural policy in the last few years has suffered from the defect that it

has considered the welfare of the British farmer as something distinct from, and too little related to, the welfare of the community as a whole. We have attempted to assess the true place of agriculture in the British national economy and to suggest methods of assisting the industry which will fit in with, and not run counter to, the main outlines of the general Plan for Great Britain.

(f) *Social Justice*.—Lastly, in Chapter VIII, we return to the second great object of economic policy—the fostering of Social Justice. Great Britain in the course of the present century has in many ways led the world in the provision of Social Services. The great pre-War schemes of Health and Unemployment Insurance and of Old Age Pensions, together with their post-War extensions, put our country in the forefront of those which have shown their practical solicitude for the welfare of their poorer citizens.

But though the progress has been great it is still very far from adequate. We have made much too little progress in extending the range of education; the extent of poverty in our great cities is still far greater than we can afford to tolerate; there are disturbing evidences of widespread malnutrition; the horrors of the slum are only now beginning to undergo some diminution.

We have no desire to underrate the progress that has been achieved. Judged by the Budget expenditure, the scope of the Social Services is continually growing. But it is not enough merely to find money for the Acts that are already on the statute book. The rescue of the unemployed and the aged from actual starvation, the provision of elementary care for the sick, the gift of the rudiments of education to every child—these are,

indeed, achievements. But they are only a first instalment, and the time has come for their extension. Political democracy cannot for long live alongside an economic system which confers vastly different economic benefits upon different individuals. The faith of the mass of the people in democratic methods and democratic ideals can only be maintained if they can believe that the democratic State is moving, however gradually, towards the objective of Economic Justice. We must preserve that belief as one of the most precious safeguards of our liberties, and we must not, in the eager pursuit of productive efficiency, lose sight of it even for a decade. Unless we can convince the man in the street, and keep him convinced, that we are making a juster and a fairer world, for him as well as for his children, we might as well spare our efforts to increase the efficiency of the economic mechanism. For any system, however productive of wealth, however much it may increase the consumption of the masses, is doomed unless the plain man can feel in his bones that he is getting a square deal.

The architects of the Plan for Great Britain will neglect the need for Social Justice at their peril.

CHAPTER III

NATIONAL DEVELOPMENT

The Case for a National Development Programme.—It is imperative, in the present conditions of this country, that the State should put new energy into the framing and carrying out of a co-ordinated programme of development and conservation of the national resources. In particular, there is urgent need for increased expenditure on public works.

There are many reasons why such a programme is needed now.

(1) In the first place, the nation has an appalling legacy of muddle and waste to clear up. The lack of adequate planning of national development in the past is painfully apparent, especially in the industrial towns in which a great proportion of our countrymen live—towns which grew up with an anarchic disregard of convenient planning and which are still dishonoured by foul slums, still overcrowded and lacking in amenities, and still perpetually begrimed and overcast by avoidable smoke. This country's great period of industrial expansion occurred in an age when non-interference by the State in individual enterprise was the ruling principle: to-day, we have still to deal with much of the chaos left to us by the unplanned Industrial Revolution. We can only hope to do this by means of a long sustained development and conservation of the

resources of the nation as a whole, under coherent direction by the State.

(2) Secondly, the nation has to do whatever is possible to prevent needless muddle and waste from being perpetrated in future. The need both for preventive and for constructive action, to save this small, densely populated country from careless spoliation and to ensure its far-seeing development, is now a specially urgent one. For although many of our problems are being eased by modern science and invention, some of them, such as the preservation of the amenities of the countryside, are being swiftly aggravated. Here and there a little is being done to prevent reckless waste and injury, by such means as the Town and Country Planning Act, and through such organizations as the National Trust and the Council for the Preservation of Rural England. Happily, too, much of the new housing has been far better planned than the old. But the injury continues to spread at an increasing pace; and such good work as is being done for preservation and good planning is much outweighed by the irreparable damage inflicted every week through the extension of "ribbon development", the unplanned spread of suburban houses, and the rapid opening up of remote coasts and countrysides by the motor-car (see p. 61).

(3) Thirdly, there is at present both an exceptional need and an exceptional opportunity for stimulating economic recovery by means of an expanded programme of worth-while public works.

The need for such a stimulus at this time is only too manifest. Recovery from the great depression is making halting progress; both labour and capital are standing idle to a great extent; and it is certain that, whatever radical improvement in our economic system we

may presently achieve along lines suggested elsewhere in this book, in the immediate future we shall not avoid having to pass through a further period of painful transition. During that transition, the community will have the double task of caring for the unemployed, and of seeing to it that, so far as possible, labour—most perishable of commodities—is not wasted but is used to increase the real wealth of the community. At such a time as this, when unemployment pay might be replaced by the wages of socially valuable employment, and when plant and capital now lying dormant would readily respond to the radiating effect of new enterprise, the real cost to the community of producing new wealth and new amenities by means of well-designed public works would be far outweighed by the advantages gained: a programme of wise spending on capital account, within the framework of considered plans of national development, would be not only specially valuable as a means of speeding up recovery and “taking up the slack” of employment, but also specially easy to accomplish without diverting resources that are being usefully employed in other ways.

We conclude that there is need both for a *long-range* continuous programme of national development and conservation, and for a *short-range* programme by which, in times of depression, the community may expand its expenditure on useful capital works.

The long-range and the short-range programmes should be worked out by a single continuing authority, so that there may be no ill-considered effort and no conflict of purpose.

It is necessary, also, that the short-range programme should be carefully prepared in advance, so that, when the need for its application arises, there may be as

short a time-lag as possible between the decision to undertake a particular enterprise and the actual beginning of the work. At present, in the absence of any continuous planning organization, we are compelled, when a depression occurs, to waste much time in rousing the Government to special activity and in hunting up or improvising projects of public works: the whole process is apt to take so long that the actual expenditure of money comes too late to afford the maximum benefit. In this respect we should do well to follow the example of the Government of India, which has a programme of public works, prepared in advance and ready for application in times of famine or distress.

The time for launching a special programme of public works must, of course, be judged with the utmost care as well as courage. For our part, we believe that now is the time for the launching of such a programme. And we maintain that conditions are now such that a large amount of general reconstruction and recovery could be floated off, so to speak, by the impetus given through an expansion of public expenditure on capital works.

Indeed, we consider that the restriction of expenditure on public works during the past three years has been maintained just at the time when such expenditure would have been most valuable. We appreciate the reason for drastic economy at the moment when attention was concentrated upon the financial crisis of 1931, and upon the attempt, first, to keep the pound on a gold basis, and then to keep its depreciation within bounds. We appreciate also the reason for maintaining that policy of economy so long as the way was being prepared for the great loan conversion operation which was finally effected in 1932; though even during that

period there should have been, we think, a more careful balancing of the opposing arguments for and against permitting productive expenditure. But for some three years now none of these reasons for restriction of such expenditure has been valid. Yet it is during these three years that the policy of discouraging needed public expenditure has been having its maximum effect. That effect is not to be measured solely by the extent of the schemes actually submitted, by local authorities and others, and turned down at the instance of the Government; the policy of discouraging expenditure on public works has also had the effect of preventing a great many schemes from being prepared or submitted. We regret that this policy of discouragement, reasonably begun in 1931, was not replaced by an active policy of encouragement from the end of 1932. One consequence has been that, amongst those engaged on public works, there has been a large increase in unemployment; and this increase has occurred at a time when other classes of unemployment have shown some improvement, and when even the export industries (which are those least amenable to control) have not further deteriorated. It is a challenging fact that, in the whole internal economy of this country, the one large field in which unemployment has seriously increased during this period has been just that one for which the Government bears a direct responsibility.

Criticisms of Public Works Policy.—Before outlining the kind of public works policy that we have in mind, we may explain why we do not accept as valid the objections often raised against such a policy.

(1) It is often argued that the policy has already been tried and found wanting. We reply that the policy has not been fairly tested under proper conditions.

Certainly, a considerable programme of public works was tried for a short period before the financial crisis in 1931. That programme undoubtedly provided employment for a large number of men. But unfortunately it was put into operation at a time when credit conditions were relatively unfavourable, when the gold standard was in operation, and when all the cumulative forces of the trade cycle were working in a downward direction. A deflationary monetary policy was being applied in the hope of preserving the exchange level of sterling; and the effects of this deflation went far to cancel out the benefits of the industrial expansion which in other circumstances would result from the programme of public works.

Moreover, the experiment at that time was tried without any provision, such as we advocate, for industrial reorganization and other measures for increasing the adaptability of the economic system. Certainly, the public works policy, under the conditions of that time, did not solve the unemployment problem; but no informed person ever supposed that public works alone could do this.

Lastly, the programme of public works in 1930 and 1931 was not made part of a coherent plan of nationwide development such as we contemplate.

A public works policy inaugurated now, when money is cheap and plentiful, and we are not in danger of being constrained to adopt a policy of deflation through fear of gold exports, would have a very different environment from that in which the earlier experiment was tried.

(2) Another objection sometimes advanced against the expansion of public works is that there are no "worth while" public works to be undertaken.

We reply that, on the contrary, there is an abundance of "worth while" work crying out to be undertaken; but that the criterion of what is "worth while" must of course be appropriate to the budget of a nation, not simply to the ledger of an individual. To an individual business, an enterprise is "worth while" only if it yields a direct financial return exceeding its costs; the individual business cannot afford to allow, on the credit side of its ledger, for service to the general public without such return, or for saving in unemployment pay, or for any stimulus to socially desirable activities. But the community may properly allow for all these factors; and for the community which can make such allowances, many public works are "worth while" which, in the strict accountant's sense, "do not pay".

Of course, when we advocate a programme of public works, we do not mean "relief work" of a kind that is useless in itself and is undertaken solely for the employment it creates: we mean work valuable in itself to the community.

A NATIONAL DEVELOPMENT POLICY

We assume, then, that there is a very strong case both for an immediate programme of useful public work and for a long-range plan of national development and conservation. What kind of work should be given priority? What kind of development and conservation should be planned and provided for? And how should this policy of national development be organized and financed?

A. A National Development Board.—For the organization required, we advocate the establishment of a

National Development Board, charged with the duty of promoting a long-range programme of national development and conservation, and a programme of useful public works available for use whenever required. The Board would work under the direction of the Government Planning Committee and in the closest collaboration with it and with the Economic General Staff referred to in Chapter I, and with the National Housing Commission referred to below, so as to ensure that the schemes of development adopted should fit in with the long-term direction of economic policy and with the work of the Housing Commission.

It would be the duty of the Board to have ready at any time a schedule of approved and useful projects of capital development. Some expenditure of this kind is desirable at all times; road building, for instance, must proceed constantly. But other expenditure on public works is, as we have argued, specially desirable for temporary use in periods of depression; and the Board, with its prepared list of approved projects, would be able to expand its operations in times of depression and contract them in periods of prosperity, without that loss of time or that lack of preparation and co-ordination which is otherwise inevitable.

B. *Financing Public Works.*—The methods of financing projects of development should vary, like the extent of the public works programme, in accordance with the condition of trade. In a time of depression, one of the virtues of public works is that they provide employment: their remunerativeness shows itself in the decline of the cost of unemployment and in the buoyancy of revenue arising out of their secondary effects in stimulating industry. Consequently, it is proper, in times of depression, to finance

works of this nature by raising loans charged on the general revenue—that is, by ordinary Government loans. But in normal and prosperous periods it would probably be more prudent finance to prevent national development from becoming an indefinite charge on the Budget. A grant for the purpose might indeed be made out of the national revenue, but even without this the National Development Board could be a self-financing body. It might derive its funds from specific taxes allocated to it. For example, it might take over the present responsibility of the Ministry of Transport for planning and financing all new roads construction, as distinct from routine maintenance, and for this purpose part of the Road Fund should be allocated to it. The largest source of its revenues would, however, be a tax imposed on property values enhanced by public action. The potentialities of this device of financing are very large. In many cases the entire cost of an improvement could be recouped out of the enhanced property values. Many years ago the City of New York undertook a large scheme of improvement by electrifying and covering over the railway line which runs down the centre of Park Avenue. As a result a street of poor tenements was converted into the foremost residential avenue of the city, and the whole cost was recouped in a short time out of the increased yield of the property tax. There are endless places where the principle of recoupment could be applied with rich results in Great Britain. The area on the south bank of the Thames in London between Westminster Bridge and London Bridge is an outstanding example. A thorough reconstruction of this area, potentially one of the finest sites in Europe, combined with the Charing Cross Bridge scheme, could probably be made to pay

for itself entirely, if only it were possible to levy tribute for the purpose on the values that would thus be created. There is an immense field for useful work in reconstructing our ugly cities and in abolishing the mean sordidness which so frequently characterizes them.

C. *Electrification*.—We turn now to the consideration of what kind of public works should be undertaken. We must pass over the many proposals for such purposes as further afforestation, reclamation and drainage of land, extension of the telephone system, and (though it is of urgent importance) the improvement of water supplies in rural areas and the prevention of water shortage generally. Electrification offers an enormous field for useful work of this character. We have had an object lesson in recent years, through the construction of the “grid”, of what can be accomplished by the prudent use of public credit and the co-ordinating authority of the State. But the construction of the “grid” represents only a small part of the field for electrical development. We suggest elsewhere that the electricity supply industry should come high on the list for public reorganization and control. If this were done a great deal of capital could be very remuneratively invested in taking cheap supplies of electric current to every corner of the country where they can be profitably employed. Many poorer and less densely populated countries than our own stand as examples of the progress that can, and should, be made in Great Britain before the potential demand for electricity is fully exploited.

Another, though more contentious, example of large-scale enterprise which might be undertaken is the electrification of the railways. Four years ago a Committee with expert knowledge and unexampled

authority, consisting of Lord Weir, Sir Ralph Wedgwood, and Sir William McIntock, expressed the view that a comprehensive programme of railway electrification would pay, and in the ensuing four years nothing has happened to alter materially the basis of their calculations. On the other hand, the railway companies have recently expressed the belief that large-scale electrification would not be sufficiently remunerative to make it worth while for them as private companies. But even if this view is correct—and it is expressed by those in the best position to know the facts—it does not necessarily follow that thorough-going electrification would not be “worth while” when judged by the wider calculus appropriate to the community as a whole. We do not feel competent to express an opinion upon a matter of technical fact. But we urge most strongly that such a wide divergence of expert testimony should be resolved, and the question authoritatively settled, as soon as possible. We welcome the scheme which is to be carried out in North London by the London Passenger Transport Board and the main-line railway companies with a Government guarantee for the necessary capital. Even if the verdict of the experts should go against main-line electrification, there are many important local and suburban schemes similar to the North London project which could be put in hand without delay.

D. *Housing*.—The other great sphere for public enterprise is housing, and there will be little dispute that there are few directions in which public action and expenditure are more urgently desirable.

The need for a housing policy planned on a national scale is both temporary and permanent. There is at the present moment an urgent need both for houses of a

certain type and for the fertile expenditure which new house-building entails. But to attain anything like an acceptable standard of housing throughout the country will necessitate a programme involving occupation for the building industry for decades to come. The most pressing immediate need is for an increased supply of houses which can be *let* at rents within the means of the average wage-earner and of the lower-paid wage-earner in particular; and by far the largest part of this need is for urban housing. For this urban housing, we need a vastly increased supply of houses which can be let at rents, inclusive of rates, not exceeding 10s. a week. Even this sum is beyond the means of large sections of the people, especially of agricultural labourers and of many workers, both urban and rural, with young families to support. The capacity to pay rent depends on the double factor of the tenant's income and the number of persons dependent on it. To meet the need of those who cannot be expected to pay economic rents, housing subsidies are still necessary; and in the case of municipally owned houses it may well be found desirable to fix differential rents (*i.e.* a standard rent subject to rebates granted to individual tenants according to their means or family circumstances). This method has been authorized by the Housing Acts of 1930 and 1933 and is in use in a number of municipalities.

In the following pages, however, we leave aside the problem of rural housing, important though it is, and deal only with that of providing houses in or close to the towns, at a rental not exceeding 10s.

The present economic and financial situation, combined with the Government's housing policy, has resulted in a considerable expansion of building, by

private enterprise and without cost to the public, of houses for *sale* on the instalment system or for *letting* at inclusive rents of from 15s. to 25s.; and this type of house has been meeting the needs of the clerk and the better-paid artisan. At the same time, the Government has been attempting, through local authorities and with the aid of the Exchequer, to abolish slums and to provide, in replacement of them, houses and flats which satisfy a certain reasonable minimum standard of requirements. But there remains unprovided for, either by this private building or by the subsidized slum replacement, the demand for houses to let at not more than 10s. a week. That is the principal housing need of our day, so far as urban housing is concerned.

The problem of getting rid of the slums themselves is a very big one; but still bigger is the problem of dealing with overcrowding in houses which are not unsatisfactory in themselves but which were designed for a much smaller number of residents than they now have to contain. This problem of overcrowding can only be solved by the provision of a large number of additional houses available for letting at low rents. Whereas private enterprise is successfully coping with the demand for the more expensive classes of houses, it is not dealing with this, the cheapest class of urban house. It is true that about one-third of the houses recently built are technically classed as "C" houses, *i.e.* as rateable at not more than £13 outside the London area and £20 inside it. But most of these "C" class houses are available only for sale and not for letting; the great bulk of those which are for letting are to let at inclusive rents of more than 12s.; and the number which are to be let at 10s. inclusive, or less than that, is negligible. This failure of private enter-

prise to supply the cheap houses that are needed is inevitable under present conditions, since the building contractor has to pay $1\frac{1}{2}$ per cent to 2 per cent more for his capital than the Treasury or a first-class municipal authority would have to pay; and without some centralized organ of control, any expansion of building may always have the effect of putting up the cost of building material and other costs. Under these conditions, the production of the 10s. house on any large scale is, and must remain, impossible for unassisted private enterprise. Yet the present time offers an exceptional, perhaps unique, opportunity for the provision of such houses on an economic basis and without public subsidy, except where rates or ground values are especially high. At present, capital is cheap; when it is secured on public credit, it can be obtained now at about 3 per cent. The cost of materials also is abnormally low. Moreover, the general economic situation is such that activity in the building trade is of the utmost general benefit, for reasons we have already indicated. The movement of recovery still needs a stimulus. Capital is lying unutilized in such amounts that it could be made available for building purposes without any restriction of the supply, or any increase of the cost, of capital for private enterprise in other fields. Labour also is unemployed and is available in quantity. The building trade happens to be a peculiarly suitable channel through which to convey such a stimulus to further recovery as is now required. It occupies a key position in the general economic situation. It provides direct employment, in a proportion which is exceptionally large in relation to costs. The building trade has, to an exceptional extent, a radiating effect upon other industries, since it in-

creases the demand for the products of many industries and so spreads prosperity widely among them. It is of the utmost importance, therefore, that the building trades should be actively employed. For the last few years private enterprise has, as we have pointed out, been providing a certain class of houses at a rapid rate. It is improbable that expansion on these lines will long continue, and there is considerable danger that, as enterprise in this direction ceases to be profitable, there will be a slump, which would have disastrous and far-reaching effects on general recovery. We therefore consider it essential, not only for the promotion of further recovery but even for averting a set-back, that the building of the cheapest class of houses, for which there is a large unsatisfied demand, should be pressed on with by public action.

But if an adequate building effort of this kind is to be made successfully, several conditions must be fulfilled.

First, the financing of the enterprise must be centralized, and arrangements must be made, with the aid of public guarantees under suitable conditions, to secure capital at the same rates as those on which the Treasury can borrow.

Secondly, there must be a central organization to secure that building materials are obtained at the lowest rates possible with large-scale purchases. The central organization must also be empowered to take steps to prevent any unjustified increase in prices for building materials. (For example, if the price of a particular material showed a tendency to rise unjustifiably, the increase might be countered in the first instance by the suspension of any tariff or other impediment to the importation of that material from abroad.)

Thirdly, the new building must be "planned" in a double sense. Its general geographical situation on the national map must be directed by a national Authority in relation to general economic policy (as was suggested in Chapter I). And in addition, the housing must be locally controlled with due regard for local interests,—the interests of public amenities, public safety, efficient transport, and the avoidance of unnecessary expenses upon public services such as drainage, etc. We need hardly emphasize again the bearing of this upon that most wasteful kind of house-building, "ribbon development" (see p. 58).

All this will necessarily involve a great work of central planning and control. We believe that such a task cannot best be dealt with, except temporarily for the immediate need, by a branch of a ministry organized on ordinary Civil Service lines and largely absorbed in other duties. We believe that a National Housing Commission is essential, and that the Commission should have a whole-time chairman of high standing and expert knowledge, with a status different from that of the head of a branch of a Government Department. The National Housing Commission would, of course, be responsible to the Government and, in particular, to the Planning Committee of the Cabinet and the Economic General Staff suggested in Chapter I. It would necessarily work in the closest collaboration with the National Development Board.

We realize the difficulties, as to ambiguous authority, etc., that are involved in this proposal; but experience in other spheres (*e.g.* the London Transport Board) has shown that such difficulties are not insuperable; and we are convinced (as we argue elsewhere) that the new economic tasks confronting government in our time

necessitate an extension of the machine of government by the association, under appropriate conditions, of specialized bodies with a different constitution and status from the customary branches of Government Departments. We recognize also that there must be room in an organization of the sort we contemplate both for central direction and for local initiative. We have no desire in any way to limit the admirable enterprise shown by many of the local authorities, especially some of the large municipalities. But it is clear that a satisfactory housing policy can only be formulated in its main outline on a nation-wide basis. It is not appropriate in a summary discussion such as the present to attempt to delimit precisely the functions of national and local bodies, and it is sufficient to repeat that both are needed and can, we believe, be fitted without difficulty into the pattern of a vigorous and coherent housing policy.

We have thought it well to set out what we consider to be the main conditions and principles of a satisfactory effort to deal with the shortage of houses available at low rents before commenting upon the new Housing Bill recently introduced.

We recognize that there is now an extremely strong case, in London and other excessively large cities, for the building of working-class homes in the form of blocks of flats. For workers whose occupation is necessarily in a great city, well-designed and amply spaced housing of this kind is often far preferable, both from the individual and the social standpoint, to housing in the shape of multitudes of detached cottages in country which should be the rural neighbourhood of the city. In so far as it will encourage the building of flats in such cases, we welcome the new Bill.

But, on the other hand, we consider that this Bill is in some respects based upon the wrong principles, and that it is inadequate to deal with the vast problem involved. It is unrelated to planning on any wider basis than that of existing local authorities. It provides no organ of administrative machinery such as is necessary, in our view, for envisaging the problem as a whole (since the Advisory Committee proposed in the Bill will have neither the functions nor the status required). In the absence of correction and guidance by a general plan, and other measures to secure the execution of that plan, the subsidies proposed in the Bill will, we believe, regrettably discourage any tendency of industries to move out of congested areas, by relieving their workmen, and therefore their wage-bills, of the extra expenses resulting from a situation on expensive sites. The Bill will tend to increase or maintain site values in these areas. And we consider that the Bill will prove so expensive and difficult in execution as to make its application both slow and inadequate in scope. We consider, therefore, that the Bill needs to be replaced, or at least supplemented, by legislation on a much broader basis.

E. *Roads*.—There is still, we consider, a great opportunity for useful extension and improvement of arterial roads, though a great development in this respect has of course been made since the War. The admirable system of by-pass roads should be extended; and the new roads, protected by the prohibition of ribbon development, would add considerably to the mobility of transport. Many narrow and congested routes should be widened. Bridges should be provided in place of level-crossings; and existing bridges should, in many cases, be strengthened and widened. Recom-

mendations to this effect were made unanimously by the Road-Rail Conference in 1933, and the development is obviously much needed, in these days of rapidly increasing motor transport, in the interests both of efficient transport and of public safety.

It may be asked how such a development of the road services is to be financed. This involves no real difficulty. The annual cost of building and repairing roads, high as it now is, is not merely covered by the taxation levied on motor traffic; it is much more than covered; the surplus would suffice for a large expansion of road services. Such expenditure should not be classed as "onerous" to the road users, but as "beneficial" to the public as a whole, and especially to those who use motor-cars. Motor users are receiving good value for the special taxes they pay, as will be realized by anyone who has had experience of motoring in a country with inferior roads and who has calculated his tyre and repair costs under those conditions.

The net charges on the public revenue in respect of road expenditure could have been substantially reduced but for the folly to which we have already referred, of abandoning to private landlords the new values created by the new roads built with public money. Much of this extra value has now been irrevocably lost to the public, but there is no reason why such losses should continue when new roads are constructed in future. Indeed, we regard it as essential, not for financial reasons only, but in the interests of public amenities and public safety and for the convenience of road transport itself, that the Government should henceforth control the consequences of its policy and expenditure on the roads. It should take powers to reserve for the community that incre-

ment of value which results from public expenditure on the roads.

We welcome the new Bill on Ribbon Development (May 1935). We fear, however, that the practical use of the powers it provides will be unequal and often tardy, owing to the extent to which that use depends on the initiative of local authorities. We suggest that main trunk roads—both existing ones and those which may be constructed in future—should be made by and at the expense of the Central Government; in such cases, the new powers should be exercised directly by the Government, only the maintenance of these roads being then left to the present highway authorities.

F. Schemes of Local Authorities.—Besides housing and roads, there are very many other kinds of public works which should now be promoted. We welcome recent evidences that this is recognized by the Post Office and that a substantial programme of expansion is being undertaken. We welcome also the signs of a more active policy at the Ministry of Transport. But we urge that the change of attitude should be carried very much further. In particular, we hope that the Government will reverse its recent policy in regard to enterprises undertaken by local government authorities. Since the financial crisis of 1931, the local authorities have been discouraged by the Government from proceeding with the many and varied enterprises which they had in view: the resumption of such enterprises should be actively encouraged.

G. Encouragement of Private Works.—Nothing that has been said of the many ways in which the State could put useful and remunerative works in hand detracts in the smallest degree from the desirability of welcoming and encouraging the revival of private

industry and commerce. We do not suggest that the State should raise so much capital in the market for Public Works that capital becomes scarce and expensive for private works. We have no fear of this happening in present circumstances, since there is obviously a large supply of savings now available for which private industry is making no demand. What we have in mind is that the National Development Board, in pursuing its Public Works policy, would always keep an eye on the extent of private capital development and regulate its programme of activity accordingly.

But watchful waiting is not the sum total of what should constitute the State's attitude to private industry; there are many varieties of positive assistance that can be given. The principle of the Trade Facilities Acts, for example, is doubly useful in depression, for the rates of interest at which borrowing can be effected with a Government guarantee are lower, while many firms which in the long-run are undoubtedly profitable have current earnings during a depression which make borrowing on their own unaided credit expensive and difficult. The scope for Trade Facilities Acts is not unlimited, but we believe that it should be exploited to the full during times such as the present. Another scheme of the same general character which has achieved considerable success and should be extended is the Export Credits Guarantee Department.

Public policy might, in theory, go beyond the loan of its credit and guarantee. Part of the justification for works of capital development in times of depression is that they assist the Budget by diminishing the cost of unemployment relief and by swelling the revenue. But these are matters which no private concern can take into account; works which are profitable to the com-

munity may not be profitable to the private interest undertaking them. This difficulty could be got over if the State subsidized private capital developments during a depression, *e.g.* by lending funds to industry at less than the market rate, or by remitting part or all of income-tax on that part of a company's allocations to reserve which is spent on capital extensions. There are obvious difficulties in the way, and the need for avoiding the dangers of such a scheme—the unfair subvention of one firm in a competitive industry, the risks of fraud, the risk that the State's assistance might merely go to swell profits, the difficulties of definition—might compel its limitation to industries which are wholly or partly under public control. But this is a line of thought which has been largely ignored hitherto and would be well worth exploring.

We are informed that, in the sphere of railway works, a very large expenditure could with advantage be undertaken immediately; the arrangements as to such expenditure which were made with the Railway Companies in 1929 are now coming to an end, and new arrangements with the companies might well be made on a similar basis.

H. *Town and Country Planning*.—The need for coherent national planning, on a scale sufficiently large to cover the whole country, can be illustrated by many examples; but no example is more striking than that afforded by the lack of any nation-wide scheme of town and country planning.

At present, several areas have managed, with great difficulty, to put in hand local schemes for the planning of building development, the reservation of land for agriculture, and the reservation of open spaces. But these efforts cover only a fraction of the country, and

many areas where the need for the preservation of public amenities is most urgent are still without any safeguarding plan. In some cases, local authorities are dissuaded from undertaking a regional planning scheme, simply owing to a short-sighted reluctance to incur the relatively trifling expense involved in obtaining expert assistance for the preparation of the plan. In many cases, local vested interests have been allowed to stand in the way or have had the effect of mutilating the plans adopted. A broader view of the interests of the country as a whole must be taken and must be made effective. In this small island, we cannot afford to leave to local initiative, however energetic, the task of safeguarding such rare national assets as the small area, only thirty-five miles across, which comprises the Lake District. In spite of the recommendations of the National Park Committee three years ago, nothing has yet been done, by national action, to preserve as "National Parks" any of those stretches of country, such as the Cairngorms, the Cuillins of Skye, the Great Wall, Lakeland, Snowdonia, Dartmoor, the New Forest, Dovedale, the South Downs, and parts of the Cornish and Pembrokeshire coasts, which the nation should safeguard as a precious inheritance. The need for action is a new one in every country, owing to the annihilation of distance by the motor-car, and in our country the need is peculiarly pressing owing to the density of the population, the smallness of the island, and the depressing character of many of the cities which we have inherited from the days of the Industrial Revolution.

We do not suggest that a central national authority can replace the local authorities, in working out the details of town and country planning. Nor do we suggest that the powers which local authorities might

exercise under existing Acts of Parliament are negligible; those powers are already considerable, and they are being used now more extensively than ever before. But we do urge that the present rate of progress is far too slow, and that the work of planning for the good use of the land of England, Scotland, and Wales should no longer be dealt with entirely in compartments. Already, we deal with electricity supply, afforestation, transport, and other services on a national scale; it is time that we dealt on a national scale with the geographical distribution of our people and our industries, as well as with certain "imponderables" of immense importance to the nation's life, such as access to mountains and open spaces. At present, we lack not only the central organization, and in very many cases the local organization, and the legislative authority, but even the up-to-date survey on which comprehensive town and country planning should be based. The present method of approach is too piecemeal and too parochial. We recommend accordingly that the National Development Board should be given a general oversight of the planning of the face of the country.

But this is pre-eminently a matter which cannot be run from Whitehall. The National Development Board should, indeed, lay down general principles of policy in which the valuable experience already gained by such bodies as the Council for the Preservation of Rural England and the National Trust would be availed of to the full. But the bulk of the executive work must be done locally. Unfortunately, the areas of local authorities are frequently far too small for proper planning to be possible. The development of transport and communications is gradually fashioning economic units which in many cases cross even county boundaries.

The Birmingham-Wolverhampton-Coventry area, for example, covers parts of three counties and several county boroughs, and there are several other integrated economic units which are already larger than the area of any single local authority. If they are not to become sprawling muddles, they must be dealt with as units. There is consequently need for a planning organization on a scale midway between the national and the local. This need for new geographical units is being felt in many directions and the country is already divided into "regions", usually numbering about a dozen, for a variety of purposes (*e.g.* the Electricity "Grid," the Traffic Commissioners, several of the Agricultural Marketing Schemes). The same solution is obviously indicated in the present case and steps should be taken to set up Regional Planning Authorities for regions covering a number of counties, formed either by co-operation between the constituent local authorities or else directly constituted.

The Planning Authorities need to be equipped with both positive and negative powers. The latter are perhaps more urgently necessary. We have already referred to the urgency of the need to prevent "ribbon building" along the exits from towns, and to the need for speedy action to preserve such areas as those we have mentioned on p. 62 from anarchic building. Even as we write, irreparable damage is being done. The nation simply cannot afford to allow this anarchy to continue, and, as we have said, we cordially welcome the first step to deal with part of this evil, which is being taken, as we write, in the new Ribbon Development Bill.

But even complete negative powers are only the merest beginning. It is not enough for a public authority

to be able to veto a proposal because it does *not* fit in with the public plan. There should be some way of encouraging developments which *do* fit in with the plan. We are living through a technical revolution which makes it possible to change the entire appearance of the country. Until very recent times it has been necessary for the industrial population to crowd together in large urban agglomerations so as to be close to the power or raw materials with which they worked, while the commercial population has always been concentrated in the towns because of the difficulties of communications. But in the last few decades these compulsions have been lifted one by one. The decline in the comparative importance of the heavy industries and the rise of light industry has made proximity to raw materials a matter of comparatively little importance. With the development of electricity, power has become highly transportable. The telephone and the amazing development of road transport have immensely improved communications. Radio and the cinema have given even the remote country town social amenities greater than were enjoyed by the large city only thirty years ago.

The middle-class town-dweller has been quick to make use of his new freedom of choice. He has moved out from his home in the town—often a noisy and smoke-darkened home, highly rented, in a town with few amenities—and he has settled in new suburbs which now spread far into the country. In some respects this migration has been very salutary; but no one who has travelled through the newly built-up areas, especially around London, can help feeling that ruinous and permanent injury to the amenities both of the country and of the town is being inflicted by this thoughtless

spawning of little house-boxes, mile after mile, between the heart of the town and the unspoilt country.

Much of the new building, promoted by speculative builders and permitted without regard to any comprehensive plan, is not only shoddy in material and monotonous in design, but also wrongly placed. If such building had been controlled in accordance with a far-seeing design for the development of the entire area around London, the new houses would surely have been located with far more care for the preservation of intervening stretches of land wholly free from new building, and with far more regard for the growth of communities with a local focus for an independent life of their own. Moreover, some of the land now built upon would have been reserved, under such a design, for intensive horticulture for the supply of the London market.

Whilst the middle-class town-dweller has moved out into new suburbs, industry has also been growing in what were recently country districts; in particular, the new industries have largely settled in semi-urban districts in Southern England and at the expense, frequently, of the old industrial areas of the North. This migration, like the town-dweller's migration, has had some very injurious social consequences and has been almost wholly unplanned. It cannot be good policy, from a national standpoint, that money should be lavishly spent upon moving industries into newly built districts—contiguous with an already over-grown metropolis—if those industries could be carried on as well, or almost as well, in the inadequately utilized towns of the North and West. The industrialist may locate his industry wherever he pleases; but the plant and the population of Jarrow, North Shields, or

Wallsend cannot be relocated except to a very limited extent and with enormous loss and suffering.

There is thus a national interest in locating new industries in these towns to offset the private industrialist's preference for the new suburbs of London. On a longer view, indeed, it would probably be of social advantage that industry should be further decentralised, a few industries being established as the nucleus of garden cities of which the inhabitants will be mainly persons dependent either directly upon these industries or on the secondary occupations which they occasion. Any such development, however, needs careful planning by a public authority, as regards both the location of such small towns and their construction, and effective means of securing development in accordance with the plans so made.

Thus the rôle of the State in directing the location of industry will have to become more extended: it will presumably have two sides, a positive and a negative one.

On the one hand, the State will have the positive task of encouraging industry, by direct and indirect means, to settle in particular places. It can give such encouragement indirectly in many ways, *e.g.* by subsidizing the housing of the workers in the industry. And it can also give encouragement directly.

If the Planning Authority has power not merely to locate the site of a town on the map, but to buy land, to build houses and factories, to offer attractive terms to industries which will settle there, to construct the rapid transport lines, to supervise the growth of the town, the development will be far more rapid. Here again we are perhaps looking rather far into the future. But a beginning should at least be made, and the Regional Planning Commissions

should be given power to raise capital, to buy land and to initiate building and transport schemes. This proposal is, after all, no more than the transference to a larger scale of the enterprise already shown by some of our larger municipalities—as for instance by the City of Manchester in the development of the Wythenshawe estate, or by the City of Leeds in the ambitious rehousing schemes now on foot.

But if this policy of positive encouragement of a relocation of our economic activities must necessarily be a matter of slow development, the State can in the meantime at least forbear from exercising its influence in the wrong direction. An instance can be taken from the present Government's Housing Bill. That Bill introduces the principle of a special subsidy for the rehousing of workers where the land is particularly costly. Some assistance of this sort is essential if the slums of London and other large cities are to be cleared and the present inhabitants rehoused on the spot. But subsidies may easily be given in such a way as to perpetuate the conditions of congestion which make them necessary. When an industry settles in a crowded district where rents are high it has, other things being equal, to pay higher wages than its competitors in other parts of the country. It is notorious that wages in London are higher than elsewhere, and this fact must be to some extent a deterrent to industries against settling in London. But if rents in London are to be brought down to the general level, this deterrent will disappear. By giving special subsidies the State is taking on itself part of the social cost involved in urban overcrowding. The remedy is not, we suggest, to abolish the special subsidy, but to make it payable to any industry *now* situated in a congested area which is willing

to move out to selected areas and so save the cost of providing housing on expensive sites for its workers, and to offer other substantial financial advantages through relief from taxation and rates to *new* industries which will go into areas, selected by the State as suitable, where land is relatively cheap and especially where planned provision for housing is being made, as in the garden cities. If it is worth while paying a special subsidy to rehouse the slum dweller in the East End, it is far more worth while paying the same subsidy to re-employ and rehouse him in small towns already established in rural or semi-rural Essex or Hertfordshire. There is very little doubt that if inducements were given to industries to locate themselves outside the main centres of population—better still in the depressed areas—there would be a corresponding saving on urban housing subsidies, or the cost of unemployment. The whole subject of influencing the location of industry is a complex and obscure one which would have to engage the earnest attention of both the Economic General Staff and the National Development Board.

We have touched in this chapter only on the fringes of the vast subject of National Development. Properly conceived, a programme of National Development could be the embodiment of the social conscience. Looked at from the economic angle, it should be the outcome of a determination that the available resources of the nation shall not rot and waste in idleness merely because profit-making industry is temporarily unable to find them work to do. From the social point of view it is a resolve that some part at least of our efforts shall be consciously directed to the conservation and enrichment of the countryside.

CHAPTER IV

THE ORGANIZATION OF INDUSTRY

THE NEED FOR ORGANIZATION

THE need for a thorough-going policy of industrial reorganization must be obvious to even the most superficial observer of our present economic condition. What we know as industry is the foundation of our national wealth; it is the organism by which we have so greatly expanded our productivity that we can support our very large population at a standard of living which, inadequate though it is, is at least higher than that of any previous century. Industry has many disadvantages: it is too frequently the foe of craftsmanship; it has necessitated, until the present age, the growing concentration of the people in grimy cities; it has been attacked by the idealists ever since Blake wrote of "dark Satanic mills". To counter these complaints industry needs the full force of its overriding advantage—its unlimited power to multiply the supply of the material goods of the world. Whether from a social or an economic standpoint, industry depends for its justification entirely upon its productive efficiency.

It is precisely in this respect that our present industrial system is unsatisfactory. We know that if all our resources of men, materials, and machines were fully occupied, we should be able to provide a minimum

standard of food, clothing, shelter, and elementary amenities for every citizen of the nation. We know that we have the industrial capacity to abolish the extreme poverty which still anachronistically afflicts something like a quarter of all our families. But the industrial system is out of joint. For every five men and women whose willingness and capacity to labour are availed of, there is one in involuntary idleness. Clearly, we have the available labour for a great increase in the output of our industry, even without an increase in the technical efficiency of industry; and though the increase would not be sufficient to introduce the leisure state of the philosophers' dreams, it would at least make all the difference between destitution and a decent standard of living for millions of the workers.

The case for reviewing our general economic system is thus enormously strong; and not the least important part of this review must concern the structure of industry.

Our chief reliance in the past for maintaining the productive efficiency of industry has been upon the self-regulating mechanism of a competitive economy. The direction of industrial development and the economic welfare of the nation rested upon the decisions of individuals seeking profitable opportunities for the investment of their resources. Under that system the necessary adjustments to changing market conditions generally took place fairly rapidly. The weak or redundant units were forced out of production by the process of "healthy bankruptcy". Capital and Labour were diverted with greater ease and mobility than to-day into new channels of production, though they were not, of course, by any means always directed into the right channels. The fluctuations of prices and

of employment did, indeed, inflict hardships in the process of adjusting the structure of industry to the changing pattern of demand; but the miseries of unemployment were of shorter duration and perhaps more endurable because of the prospect of speedy recovery.

It is doubtful whether the system of free enterprise ever worked quite so smoothly in practice as in theoretical description, and it is quite certain that it is not working smoothly to-day. But we must be careful not to exaggerate the defects of free competition. There are many industries, perhaps the majority, where even to-day the natural competition of independent individuals results in an equilibrium between demand and supply, where the capacity to produce is approximately adjusted to the demand, and where the producers are neither being ruined by undercutting nor enriched by excessive monopoly profits. The system is suffering from certain grave and crippling defects rather than from complete breakdown. Nevertheless, the defects are sufficiently serious to demand immediate attention.

There are many causes for the decline in the efficacy of profit-seeking competition as the sole regulator of the industrial machine. The growth of mechanical methods of production has diminished the elasticity of adjustment which characterizes an economy of smaller units. The large minimum amount of capital which is necessary for entering many industries confers a semi-monopoly on those already in the industry. The steadily growing importance of machinery in the productive process makes it far easier to create a temporary overcapacity and far more difficult to escape from its consequences. Again, the corporate organization which accompanies the need for great accumulations of capital

frequently diminishes the elasticity of mind of those in control. The managing director of a huge limited liability company cannot abandon old paths and bravely strike out on new paths nearly as readily as the old private industrialist who owned all he controlled and controlled all he owned. Labour too is much less mobile than it was. Workers were formerly diverted from dying industries to expanding industries by a fall of wages and a growth of unemployment in the former and the offer of higher wages and steady work in the latter. It was a cruel system, and from the social point of view we welcome the fact that Trade Union insistence on the standard wage and the provision of unemployment benefit at standard rates for all industries have blunted its cutting edge. But as a means of ensuring the adjustment of productive capacity to the changing circumstances of demand it was a very effective system, and we have not yet evolved an equally effective substitute. Both Capital and Labour, then, are less capable of moving from one section to another of the national economy—and adjustments are correspondingly harder to effect.

Since the War we have had the new phenomenon of large industries suffering from an apparent over-capacity to produce. We are not here directly concerned with the way in which this “over-capacity” arose—it is due in part to war-time over-stimulation and in part to the decline of our export trade. Nor are we concerned with its effects, except to note that they have seriously demoralized whole industries, depressed labour standards, made profit-earning impossible, and led to cut-throat competition and broken markets. What we are concerned to point out is that the régime of free competition is making little progress towards restoring

equilibrium out of the prevailing chaos. The "healthy bankruptcy" upon which the theorist relied often does not happen where it is most required. In an industry where the overhead cost of fixed capital is a considerable part of the total cost of production, it is always open to a company to go through a process of "financial reorganization" and reduce its costs. So long as it is able to sell its products for more than the cost of labour, raw materials and essential overhead charges, there is no reason why a bankrupt concern should go out of business. But with each successive "reorganization", the throat-cutting becomes more severe, and even the most efficient concerns, which at the start of the process were operating at a profit, are driven to the wall. A time comes when very few dividends are being paid, when the industry is totally unable to raise further capital, except the reluctant contributions of those who still hope to retrieve what they have invested in the past. But still the industry goes on producing and over-producing. Who would venture to say that the Lancashire cotton industry, for example, is any nearer equilibrium to-day than it was in 1922—that a further bout of bankruptcy would make it more so? Through all these years the consumer of cotton goods has been getting his goods very cheaply, but only at the cost of the slow consumption of the industry's capital. It cannot possibly be to the interest of the community as a whole to allow one of its largest industries to beggar itself. For conditions of over-capacity such as have prevailed in Lancashire and elsewhere in this country since the War, free competitive enterprise clearly has no remedy that is not intolerably slow and destructive in its operation.

At the other extreme, the circumstances of to-day are equally different from those which were postulated

by nineteenth-century political economy. There is a growing tendency for industries—including some of the most vitally important—to come under the domination of one gigantic combine or of one or two large companies which in practice work closely together. In an industry of this nature all the surface appearances are the precise opposite of those in a distressed industry like cotton. Labour standards are high, the work of the industry proceeds smoothly; prices may be reduced, but no throats are ever cut in the process; technical improvements are regularly adopted, and the fixed capital of the industry is fully maintained. But this is not free competition. Technical efficiency, high wages, steady profits—all these are not by themselves sufficient justification for monopoly. In a competitive system the community is sure that it is getting its supplies of goods at the lowest possible price. Indeed, as we have seen, the price is sometimes too low. But to guard against the dangers of cut-throat competition by encouraging such monopolies as restrict production and hold up prices above the possible minimum cost would indeed be to jump out of the frying-pan into the fire. In the United States, public opinion and the law have attempted to prohibit all monopolies or near-monopolies on principle. It would be foolish to adopt such an extreme attitude in this country. But we must be sure that our industrial trusts are not using their monopoly position to restrict supplies below what they might be, and to keep prices above the level that would assure a fair competitive profit. It may be that these monopolies will resist the temptations of their powers and serve the public with the utmost economy. But we must be sure. In existing circumstances we certainly cannot be.

There are many other causes for dissatisfaction with the régime of competitive private enterprise. In particular, there is a growing opinion that many industries are so intimately "affected with the public interest" that they cannot properly be left to the uncontrolled direction of those engaged in them. In some cases it is the influence which the industries in question exert upon the welfare of the whole community which makes them the objects of public solicitude. The banking system and the armaments industry are two outstanding examples. In other cases, it is the suspicion that a service of paramount national importance is not being performed with the requisite efficiency which lies behind the desire to institute public control. For example, there is a strong *prima facie* case for the belief that the distribution of certain essential food-stuffs, notably milk, is conducted with a great deal of avoidable waste.

Still another reason for interfering with individual competitive rights is the desire to maintain labour standards. The principle of Trade Boards for unorganized industries is, of course, well known. But there are many larger industries where the majority both of employers and of workers desire protection from the minority who are prepared to offer, or to accept, wages below the prevailing standards. In the cotton textile industry the precedent has already been set of securing legal sanction for wage rates agreed upon by a majority of employers and employed.

In several directions there is thus an admitted need for interference by the State with the free play of industrial competition. The function of statesmanship is not fulfilled by a passive policy of succouring the victims of competition's defects. It is not enough merely

to assist those who are left without livelihood by the failure of industry rapidly to adjust itself to changed conditions. The State must take an active hand and pursue a positive policy. We must construct a new framework for the orderly planning of economic life in industries where free competition has produced either persistent disorder or a dangerous concentration of economic power.

Before we begin to outline the methods by which, in our opinion, this task can best be approached, two warnings will not be out of place. The first is that we must not exaggerate either the need for, or the possibilities of, the planning of industry. We have already pointed out that in a considerable number of industries free competition is still working with reasonable efficiency. So long as an industry automatically keeps itself in that balanced equilibrium between the interests of producer and consumer, employer and employed, which is the theoretical ideal of free competition, it would be foolish to intervene. We must be careful, in emphasizing the defects of free competition in some industries, not to imply that those defects are universal.

And secondly, we must not lose sight of the fact that the objective of our planning must be, in general, the same as that of theoretical free competition—that is, it must attempt to distribute the available resources of the community between the different industries in such a way as to produce the greatest volume of real wealth. In other words, planning must be directed towards the interests of the community as a whole, rather than to the special interests of sectional groups. To “plan” an industry in such a way as merely to raise the remuneration of those engaged in the industry by mulcting the consumer would be to diminish rather

than to increase the wealth of the community as a whole. It has always been the theoretical justification of free competition that, with all its defects, it approached closer than any other system to the ideal distribution of resources which would maximize the production of wealth. It is especially where such competition is conspicuously failing to maximize the production of real wealth that planning is needed, and if planning has the effect of diminishing the output of wealth it will be an economic waste.

METHODS OF ORGANIZATION

No uniform treatment is applicable to the circumstances of every industry. It would be impossible to apply the same pattern of organization to the cotton and chemical industries, the one depressed, inchoate, bewildered, the other organized, efficient, self-confident. We cannot solve the industrial problem by any embracing formula. No Government could draw up a model of organization, or even half a dozen alternative models, and expect every industry to conform. Each industry has its own peculiarities—each must have its individual prescription. But if each industry in turn is to come before the Government, Parliament, and public opinion, for separate consideration and separate treatment, the process will be never-ending. Here is a real dilemma: the facts of industry prohibit regimentation; the limited possibilities of political action put a long series of individual enactments out of the question.

AN ENABLING ACT.—To some extent the dilemma might be resolved by passing an Enabling Act conferring on industries the right, or imposing upon them

the obligation, to organize themselves corporately, with certain specified powers. The industries themselves would then elaborate the details of their own organization; the part of the State would be to examine and approve, and it could be accomplished by administrative order instead of by the more cumbrous procedure of an Act of Parliament.

But there are dangers in such a procedure. Industrialists, when invited to draw up a scheme for their own organization, would be less than human if they did not do so with an eye to their own interests rather than to the wider interests of the community. If an industry is given the power to turn itself into a monopoly, it would be possible for it to use the power to restrict production and raise prices. Indeed, this would be the most effective way of advancing its own interests—at all events in the short run. It would be wrong to exclude altogether the possibility of restricting the capacity to produce, for there are some industries where such a restriction would in the long run be in the interest of the community as well as of the industry itself. But these industries are in a small minority, and in the great majority of cases restrictive monopoly would certainly be harmful to the interests of the community at large.

We are consequently of the opinion that it would not be in the public interest to confer on the generality of industries the power to constitute themselves monopolies. Exactly what constitutes a monopoly is not easy to define; but for the purposes of this discussion we can single out three monopoly powers. The first is the power to impose on the constituent firms of an industry a limitation or restriction of the volume of their production or sales. The second is to prescribe

minimum prices below which sales may not be made. The third is the power to limit or prohibit new entrants to the industry. Any industry which possesses any of these powers over its constituent firms can be regarded as having the characteristics of a monopoly; if the powers rest upon legal sanction it might be called a legalized monopoly. It has been suggested that the dangers of monopoly could be avoided by conferring these powers on industries, but making their exercise subject to safeguards, such as the approval of the Board of Trade, the representation of consumers on the governing body of the industry, full consultation with organized labour, the acceptance by the industry of an outside chairman, and so forth. These safeguards would be of considerable utility. But they do not get over the major difficulty. They might ensure that any restriction of production or enhancement of price was moderate. But there is no economic justification for even a moderate restriction of production *if it is to be applied to industry in general*. We cannot consume more by producing either a great deal less or a little bit less. We can only consume more by producing more. In order to defend the community against any danger of a widespread policy of restriction, we come back to the proposition that restrictive monopoly, whether moderate or excessive, can only be justified *as an exception*. We propose, therefore, that powers such as the three we have distinguished should not be granted to industries except after the most careful enquiry, and on the understanding that the industry accepts a substantial degree of public supervision, regulation, and control as a condition of the powers being granted.

Many of the powers that might be conferred on in-

dustries by an Enabling Act do not raise the issue of monopoly and are comparatively uncontroversial. It is desirable, for instance, that the provision already obtaining with regard to wages in the cotton manufacturing industry should be extended to other industries, and that any industry in which a substantial majority of both employers and employees wish statutory force to be given to their agreements on wages and working conditions should be allowed to obtain this power without having to promote a special Act of Parliament for the purpose. There are several industries where a long tradition of harmonious collective bargaining is threatened by the selfish action of a small minority. Standardization—a fruitful source of true economy—would be immensely facilitated if the central organizations of an industry were enabled to formulate and enforce the standard specifications of the industry. There are several trades to-day—domestic sanitary ware is an example—where virtually every manufacturer agrees on the necessity of standardization but none dares to limit the range of his products for fear of being unable to compete in all markets.

In some trades there is grave need of an established code of what constitutes fair and what unfair competition, for simplifying methods of quotation, etc. In others there is need of a Research Bureau to be financed by the whole industry; without the power to make a compulsory levy for the purpose, every firm will hang back in the hope of profiting by the Bureau's researches without contributing to its cost. There is an almost endless list of ways in which an Enabling Act of this character would be of service to industry, without in any way injuring the interests of the community at large.

We recommend, therefore, that such an Enabling Act should be passed. The Act should set up an Industrial Advisory Committee, on the lines of the Import Duties Advisory Committee, to examine and pass schemes submitted by industries. Schemes, when approved by the Committee and by the President of the Board of Trade and laid before Parliament and the public, should come into force by Departmental Order.

But where an industry wished to avail itself of one of the monopoly powers, a somewhat different procedure should be adopted. The enquiry made by the Industrial Advisory Committee should be more searching in character and specifically directed to the point whether the exercise of these powers would be in the interests of the community as well as of the applicant industry. The scheme, before approval, would have to make provision for some measure of public supervision of the industry. And approval would need to be given by a more deliberate Parliamentary procedure,—not, indeed, the lengthy and cumbrous procedure which is now customary for an ordinary Act of Parliament, but a process providing for full discussion and consideration, with a view to ensuring that such powers should only be granted if, in the circumstances of the particular case, the grant is in the public interest, and if their exercise is adequately supervised and controlled. In some cases, as we indicate below, industries requiring such powers may be most suitably dealt with by special legislation.

The Act would of course specify, *inter alia*, what percentage majority of the industry was required for a scheme to be approved, and how that majority was to be determined. For schemes where the inter-

ests of the workers were affected, provision should be made for an allocation of voting power to the Trades Unions concerned. On the employers' side the power to vote would have to be allocated in such a way as to take into account the number of workers employed, the amount of capital invested, the average output, and the average turnover of each producing unit.

OTHER FORMS OF REORGANIZATION.—The Enabling Act would of course be of general application. But nothing in it would prejudice the power of Parliament to take action on different lines with regard to those industries and services which in the opinion of the Government required special treatment.

We envisage four broad types of organization to meet the circumstances of those industries which for one reason or another need a degree of organization or of public control which they would not achieve for themselves under the Enabling Act.

In the first category falls that minority of industries where real and permanent over-capacity exists and where consequently some reduction of the capital equipment of the industry can be justified. These are the well-known depressed industries—coal, cotton, iron and steel, shipbuilding, are the chief of them.

We next come to those industries which do not require reorganization as do the depressed industries, and which the State is not prepared to take over, but over which it wishes to exercise a close control. They are of two varieties: (*a*) industries which, being dominated by one or two large firms, are already virtual monopolies; and (*b*) industries which are peculiarly “affected with the public interest” (*e.g.* banking and insurance). In the former class (which we may distinguish by the name of *Public Concerns*) the main

prescription for public control is the utmost publicity for accounts and operations. The latter class, that of *Public Utilities*, already includes the railways and the gas and electricity supply companies. To fall into this class, an industry must be one which the State is not yet ready or able to socialize or nationalize in the fullest sense but over which it wishes to exercise a close control. Such an industry may be a monopoly, or in many hands. But without disturbing ownership, the State may impose conditions as to publicity of accounts, limitation of profits, fixation of charges by a public tribunal, etc. In this field we foresee the possibility of a very great advance being made in the immediate future. To take only one example, we recommend in Chapter V that the joint-stock banking system of the country should be given Public Utility status, thus meeting the need for control and publicity without incurring the disadvantages of outright nationalization.

The last group of industries is composed of those suitable for complete socialization. We suggest that it should include such industries as transport, electricity supply, some forms of insurance, the manufacture of armaments, etc.

Each of these four broad varieties of industrial organization may be very briefly commented upon.

(1) DEPRESSED INDUSTRIES

First come the special arrangements for the great depressed industries. It is far beyond the scope of this chapter to attempt to present a detailed plan for dealing with the depressed industries. But we believe that two propositions can be made with

certainly about any plan which is to have a prospect of success. The first is that it will involve, at the least, a reduction in the number of operating units in these industries, and at the most a very large measure of centralized control. The second is that it will involve a reduction of productive capacity and a concentration of production upon the most efficient plants. These aims could both be achieved by nationalization. But we believe that a general nationalization of the depressed industries would be fair neither to the State nor to their present proprietors. To the State it would involve the assumption of responsibility for a number of ailing industries. And to the present shareholders it would mean expropriation, and the payment of compensation, at the bottom of a depression, when sound measures of reorganization might considerably enhance the value of their property. The correct line of approach seems to us to lie in centralizing the effective control of these industries while leaving their present ownership substantially unchanged. The fullest form of applying this general idea would be to set up in each industry one or more large combines, free of intolerable financial burdens and subject to some public control, in which the existing firms would become shareholders. If this thorough-going form of integration cannot be secured, another method would be to leave the present operating units of the industry as they are, but subject them to far-reaching control by a central organization—the organization having powers which would enable it to control not only the volume of output of the industry but also the units from which it was to come. In either case what is wanted is the establishment by the State of a rational organization for each industry, bearing in mind the individual peculiarities

of each industry, but ignoring the sectional jealousies which have hitherto stood in the way of anything being done.

Something of this sort was attempted for the coal industry in 1930, but the precise method of organization was in many ways defective; its success has not been outstanding, and future projects should profit by its errors. The first difficulty in the way of such a plan is to secure the scheme for reorganization. The experience of the depressed industries in the last decade is not such as to encourage great hopes of a practicable scheme emerging solely from within the industry, or from those who represent the industry in a Trade Association. In the cotton industry, for example, scheme after scheme has been produced, but even though the later ones, profiting by experience, have tended to be more and more innocuous (which in this connection is almost synonymous with useless), very few of them have been adopted. We believe that use might be made in these industries of a procedure adopted in the reorganization of agriculture. In accordance with the Agricultural Marketing Act the Minister has appointed several Reorganization Commissions for the different branches of the industry. These Commissions have been drawn largely from outside the industry in question though including experts from within; they have examined the position and drawn up a draft scheme. The scheme has then been submitted to the industry with the implied approval of the Government. It is possible that Reorganization Commissions of this nature would be of use in the case of the depressed industries. Their reports would at least give these industries one more chance of acquiescing in their own reconstruction before the community

loses its patience and imposes a scheme from without.

The condition of the depressed industries makes monopoly powers inevitable. But it does not make such powers any less dangerous, and it is essential that they should only be granted subject to considerable safeguards. The Board or Boards which are appointed to administer any scheme, whether for a depressed industry or not, which involves the grant of monopoly powers, should regard themselves as trustees not merely for the shareholders of the industry, not even exclusively for the whole body of people engaged in the industry, but for the community at large. There should accordingly be a substantial "neutral" element on each Board, which does not represent any section of the industry but is appointed to represent the public interest. In some cases—as in the Herring Industry Act—it may be necessary for the whole Board to be appointed by the Government rather than elected by the industry. Apart from these watchdogs of the general interest, there should be provisions for the fullest possible publicity for the industry's operations, for a system of cost-accounting operated by accountants appointed by the State, and for a limitation of profits to a reasonable figure. These provisions are of course intended to secure that the industry shall not make use of the State's assistance in order to restrict production, subsidize inefficient producers, or raise prices to the detriment of the public interest.

(2) "PUBLIC CONCERNS"

The second variety of organization does not involve the grant by the State of legal monopoly powers, but

the scrutiny by the State of monopoly powers already acquired *de facto* if not *de jure*. Recent decades have seen the growth of gigantic combines dominating whole industries. These huge companies are subject to no regulation more strict than that applied to the smallest public company; they are too large for effective control to be exercisable by the large body of their proprietors; and they are frequently not subject to the check and stimulus provided by free competition. All may be well within these commercial juggernauts; but the public should be able to base its confidence and approval upon knowledge of the facts rather than upon blind faith. Other industries, which may or may not be *de facto* monopolies, need some measure of public control because of their bearing on the rights of large sections of the community. Railway transport, electricity, and gas (to name only three) were long ago recognized by the State to be in this category; but the list needs extending. For these two varieties of industry two similar but not identical forms of organization need to be developed. To the first we can give the name of Public Concern, to the second that of Public Utility.

An amendment is needed to the Companies Act, setting up a new category of Public Concern. Any joint-stock company whose assets (including those of its subsidiaries and sub-subsidiaries) exceed a certain figure to be laid down in the Amending Act should automatically become a Public Concern. In addition the Board of Trade would have power to list as a Public Concern any joint-stock company which in the Board's opinion either directly or indirectly controlled more than half of the total activities of any industry, either in the country as a whole or, in some cases, in particular localities. The main

obligation to be laid on a Public Concern should be that of the fullest publicity for all its operations. Its accounts should be published in a prescribed and detailed form; they should include the operations of all subsidiaries and sub-subsidiaries; they should be audited by accountants appointed and remunerated not by the Public Concern itself but by an official or professional body, and these accountants should be charged with the duty not merely of ascertaining the correctness of the published accounts but of assessing the efficiency of the concern by means of cost-accounting. It would probably be found desirable for a Supervisory Council to be attached to each Public Concern, representing the private shareholders, the employees (both salaried and wage-earning), and the consuming public. We have no wish to specify the precise details of the Public Concern form of organization, but we have probably said enough to indicate with reasonable clearness the type of provision we have in mind. It is no part of our intention to imply that the State should discourage the growth of large enterprises. On the contrary, we regard them as inevitable, and in most cases welcome, phenomena of a highly organized economy. But we wish to recognize the fact that the Companies Acts, as they stand, apply equally to the very smallest and to the very largest public joint-stock companies. In our opinion some differentiation of treatment, without any implied condemnation of the larger companies, is a necessary step in the gradual evolution of company law.

(3) PUBLIC UTILITIES

The Public Utility organization would differ from that for Public Concerns in important particulars. The

Board of Trade should be given power in consultation with the National Planning Authority to schedule any industry as a Public Utility if its public importance warranted the step. Railway, gas, and electricity companies are already in this category; we indicate in Chapter V that the joint-stock banks should be placed within it, and the principle might well be extended to some, if not all, forms of insurance and to other industries. The distinguishing characteristics of the Public Utility form of organization should be, first, the publicity enjoined on Public Concerns; second, the limitation of profit; and third, the approval of charges by some public body. It will be noticed that these suggestions do not go far beyond the limitations already imposed in principle upon railway and electricity concerns. The proposal is rather to extend the scope than to increase the obligations of Public Utility status.

(4) SOCIALIZED INDUSTRIES

The fourth great category is that of fully socialized industries. The extent to which the economic activity of the country is on a non-profit basis or on one of closely limited profits is already very great. The vast "public concerns" under *ad hoc* authorities, or in effect under public control through special or mixed systems, are in some respects a model for further extension and in some respects urgently need review and reconsideration.

The general principles limiting and guiding future extension should be:

(a) The steps taken to secure public control should be proportionate to the public interest involved. Thus the business of central banking obviously presents a

much more urgent case for public control than the business of hat-making.

(b) The form of organization should be appropriate to the particular industry in question. In general, we believe that "public corporations" of varying constitution, but independent of current ministerial direction, save on specified and limited questions, will be found preferable to direct nationalization under political control. We already have a number of precedents in the organization of "public corporations": the British Broadcasting Corporation and the London Passenger Transport Board are outstanding examples. In each case the governing body is appointed by a public authority (either the Government, or in the case of the L.P.T.B., a statutory appointing committee), but each organization is independent in its daily working.

(c) The extent to which public ownership or management is introduced is necessarily limited by the ability of the machine of Government—Government in the largest sense, including Parliament—to undertake additional responsibilities without undue risk of inefficiency or corruption. This may prove to be the most important limiting factor in any immediate programme; for (as is illustrated below) there is no lack of spheres of economic activity which are suitable for socialization on other grounds, provided that they can be organized efficiently.

(d) It is extremely important that the State should not be loaded with distressed and declining industries; nor on the other hand, while there is a mixed system and the Treasury requires revenue for "social services", should the State take over potentially very rapidly developing industries to whose progress risk and experiment are vital.

(e) There must be a very careful "public services" budget framed as a whole; and very careful and illuminating cost-accounting systems for each concern: each concern must either pay its way fully (with margin to replace loss of revenue from former private enterprise), or must render a public service incontestably worth the net cost involved.

Disagreement as to how far it is economically desirable to socialize in the near future should not be serious, since the real limiting factor is (c). There are probably more activities in which there would be a net economic advantage in socialization than can in practice be absorbed in any near future by the public machine. What is therefore needed as a basis of agreement is a list of *priorities*, on the above criteria, with the intention of proceeding as far and as fast as is administratively practicable.

The construction of this list of priorities would be one of the first tasks of the Planning Authority. We cannot anticipate its decisions, but it may be useful to indicate a few industries which in our opinion should come high on the list.

Transport is an obvious example. So far as the railways are concerned, socialization would present few difficulties and few advantages. But the time is fast approaching when the whole transport system needs co-ordinating. The railways have a large amount of fixed capital, privately owned; they are common carriers and must accept whatever goods are offered to them for carriage; and they are subject to a complicated system of rates which was originally based on the assumption of a monopoly which they no longer possess. Road transport has the larger part of its fixed capital provided by the State, though not, it is true, free of

charge; it can choose the goods it carries and charge for them as it pleases. As a result of these differing circumstances, the nation's transport facilities are not being used to the best advantage. The remedy, in our opinion, lies in the institution of a community of financial interest between road and rail as regards the main "public carrier" services, so that it is to the advantage of neither party to keep traffic away from the other; and this can hardly be achieved without some degree of national control, if not ownership. It is not suggested that a complete monopoly of transport should be instituted, and many exceptions would have to be allowed. In the sphere of passenger transport, it would not, for example, be necessary to bring taxicabs within the scheme, and the services provided by the public transport combine would always be subject to the healthy competition of the private citizen driving his own car. In the sphere of goods transport, it would remain open to any firm to transport its goods in its own vehicles, and it would probably also be advisable to make an exception for vehicles hired out for comparatively long periods for the conveyance of one firm's goods, and perhaps for local "public carrier" services with a limited range of activities. We need not particularize the exceptions, for it is the main principle that is important. Any form of transport involves such a large amount of fixed capital, whether privately or socially provided, that competition can very easily become uneconomic. It is in the nation's interest to see that the method by which a particular batch of goods is transported is determined not by temporary competitive advantages but by consideration of which agency is best fitted for the particular task in hand. And we believe that by combining the two

principles—single control of the great Public Carrier Services, and absolute freedom of the individual firm to arrange the transport of its own commodities—it should be possible to secure the advantages both of large-scale organization and of effective competition.

Electricity is another case for early socialization. One large part of the industry, the distribution of electrical energy from the generator to the Authorized Undertaker, is already socialized, and the intervention of the State has greatly increased the technical efficiency of the industry. But the distributing side is still in parts of the country in a state of confusion comparable to that of the generating side before the advent of the "grid". There is a perplexing variety not only of rates but of methods of charging, and many of the distributing companies are far too small to secure a proper diversification of load. It is only fair to add that many of the larger concerns, particularly the large municipal undertakings, are models both of commercial and of technical efficiency. We propose that the same broad principle which was applied to the generators in 1927 should now be applied to the distributors of electricity—namely, that the standards of efficiency of the most efficient should be imposed on the least efficient, and that the industry should be reorganized in units large enough to secure the maximum economy. We think the time has come to make the generation of electricity a publicly owned business, and to end the anomaly of the present arrangement whereby the generators are private companies but have to sell all their production to the publicly owned "grid". On the distributive side a large part of the industry is already municipally owned, and the principle of public ownership (as distinct from public control) might be extended gradually, start-

ing with the areas now served by companies which are too small to be efficient. A co-ordination of the industry on these lines, and the pursuit of far-sighted commercial policies designed to increase the consumption of electricity, could enormously increase the extent of electrification and cheapen the cost of current. There is even less need than usual in this industry to fear any lack of enterprise under public control, for the great municipal electricity undertakings have long ago established themselves among the technically most efficient and commercially most enterprising of the country.

In another field, there is a strong case for the nationalization of some forms of *insurance*, especially that known as "industrial assurance", which closely touches the poor and whose present administration is in many respects open to serious criticism. The State already runs health insurance, which is the most difficult form, and the extension of its operations, coupled with co-ordination in the administration of the different forms of insurance, would be highly desirable. Since the State has made motor insurance compulsory, it would seem reasonable to suggest that this service should be nationalized, which would incidentally do away with the unsatisfactory position of large liabilities in respect of compulsory insurance being undertaken by companies which, though "Authorized Insurers", prove to be financially unsound.

The interests of the poorer consumers might also be greatly advanced by socialization of several branches of the *distributive system*. Milk and coal would seem to be clearly indicated, since the production of these commodities is already under centralized control. In the case of milk there is the added circumstance of the

existence in many parts of the country of what almost amount to local distributive monopolies. The nationalization of *mining royalties* has become almost an agreed principle, while there is a very large and growing body of support for the nationalization, on political rather than economic grounds, of the *manufacture of armaments*. This list is by no means exhaustive, but when taken with the special treatment recommended for the depressed industries, it would provide quite enough material for the labours of one or even two parliaments.

These varied recommendations would provide a legal framework for industry sufficiently flexible to suit the different circumstances of each industry. We believe that their adoption would go a long way towards removing the abuses both of excessive competition and of private monopoly. In conclusion, we can only reiterate what was stressed at the outset, that the only object of any organization of industry is to maximize the production of real wealth. If the system we have suggested succeeds in adjusting the equipment of industry to the demands it has to meet, and in facilitating the re-employment of some of the resources both of capital and of man power which are now wasting in idleness, it will have served its purpose. But if it merely adds to the existing rigidities and increases the existing inflexibilities, it will have done harm. The test of any industrial system must be its ability to increase the welfare and the income of the whole community.

CHAPTER V

BANKING AND FINANCE

THE SCOPE OF MONETARY POLICY

THE importance of monetary policy, though great, can easily be exaggerated.

No one would deny that currency policy, which is the international aspect of money, and credit policy, its domestic aspect, are essential elements in any complete formulation of economic action. Currency policy has, as experience has shown, a profound influence upon every sphere of economic activity and every effort of economic policy. When the currency is on a fixed parity with gold, the effort to maintain it may involve first a long period of deflation and unemployment, as between 1926 and 1931, and then a financial crisis, as in 1931, disrupting social reform and general economic policy, with a political crisis and change of government as a consequence. When the currency is off gold the problem is different, but no less important; for then the basic question of the exchange value to be maintained in relation to other countries is decided by those who control the national currency. Credit policy is no less important than currency policy. The Bank of England and the "Big Five" Joint-Stock Banks between them largely determine whether at any time expansion should be encouraged by easy and cheap

money or discouraged by the opposite; and this may well be a decisive factor both in the general economic position and in the specific schemes which a government may be promoting. Further, the banks and the other institutions of the financial system with which they are closely associated, the Stock Exchange and the issuing houses, etc., and the opinions formed and advice given by those who direct them, largely determine the direction in which the savings of the country flow, whether for investment abroad or at home, and into what form of enterprise.

But money is not all-powerful. Many years ago Jevons wrote: "There are men who spend their time and fortunes in endeavouring to convince a dull world that poverty can be abolished by the issue of printed bits of paper. I know one gentleman who holds that exchequer bills are the panacea for the evils of humanity. Other philanthropists wish to make us all rich by coining the national debt, or coining the lands of the country, or coining everything." The forms of these beliefs have grown more subtle, and more plausible in the process, since Jevons' day. But the root-belief is still the same: that by a few simple book-keeping transactions a flood of wealth hitherto pent up by an imperfect monetary system can be released to sweep poverty from the face of the earth.

We do not share these beliefs. The monetary system can be improved, and it is the task of this chapter to show in what particulars we believe it can be profitably amended. At the present moment there is clear evidence that it is not working as it should; the abundance of so-called "cheap money" in the City of London, together with an oppressive scarcity of money in the pockets of the unemployed, are by themselves ample

proof of the existence of some impediment in the normal flow of money. This impediment must be removed, and we believe that its removal will contribute powerfully to the restoration of prosperity. But we see all around us too many disorders which money did not cause, and which money cannot remove, to believe that monetary reform is by itself capable of bringing a happy issue out of all our economic afflictions. The growth of cotton industries abroad while Lancashire rots in idleness; the competitive and off-setting subsidies of rival merchant marines; the movement of population from North to South of England, while international migration has come to a stop; the numbing suspicion of national hatreds; the paralysing fear of war—all these and many besides are the non-monetary causes and the non-monetary manifestations of the world-wide depression.

The rôle of money is to serve as lubrication to the economic mechanism. The essential condition of efficient performance of its service is that it shall flow freely and reach every part of the mechanism. An efficient monetary system is thus an essential pre-requisite of a properly functioning economy, and any stoppage of the flow of lubricant will immediately impede the movement of the machine. But even a perfect lubricating system will not of itself start the machine when it has stopped, or ensure its even running. The smooth running of the economic machine depends upon an infinite number of interdependent economic processes being kept in adjustment. Many of the maladjustments were not caused by money and cannot be cured by money; and unemployment is a reflection of the net result of *all* the existing maladjustments. If a piston does not accurately fit its cylinder the machine will not

function properly, nor will there be a normal flow of lubricant. But it would be futile to blame the defect on the lubricant. Similarly, the impoverishment of the export trades of a country may prevent the normal flow of money within that country. But the cause of the trouble is to a large extent non-monetary, and money cannot be expected to put it right. Monetary policy, then, takes its place as one of the elements of a complete economic policy—an essential element, but not the only essential element. We regard the proposals in this chapter as being urgent and vital, but we do not wish them to take any precedence over those contained in other chapters of the book.

THE BANK OF ENGLAND

The British banking system is based on, and largely controlled by, the Bank of England. That institution was the prototype of the Central Banks which now exist in nearly every country, and it is one of the most powerful monetary institutions of the world. This is not the place to enumerate the functions of Central Banking. But, broadly speaking, the Bank of England determines the volume of credit available both to the London Money Market and also, through the commercial or joint-stock banks, to the industry and commerce of the country; and it also largely determines at what rates of interest that credit shall be offered. The chief limitation on its powers is that it is unable to determine the qualitative distribution of credit; that is, it cannot decide to which particular uses the available total of credit shall be devoted. But its powers within their limits are remarkably effective.

In spite of this unique position of influence, the Bank of England is still a private chartered company. Each shareholder is allowed only one vote at a meeting of proprietors, however large the total of stock he may own, and the Court of Directors has become, for all practical purposes, a self-perpetuating oligarchy. It is common ground that the policy of the Bank is no longer directed towards earning the maximum possible dividend for its proprietors. On the contrary, the Bank maintains the closest possible relations with the Treasury and regards its privileges as a public trust; its policies are undoubtedly formulated with the sincerest desire to advance the general interest. If it has made mistakes, they have been genuine errors of judgment and not the calculated acts of a vested interest.

But the private constitution and established practice of the Bank have three conspicuous defects. It is only natural that an institution working so much within the environment of the City, and drawing so much of its directing personnel from private banking houses, should tend to have, all unconsciously and however excellent its intentions, the point of view of the City, to the exclusion of, and often in contradiction to, the opinions of the country at large. In the second place, the Bank is entirely inarticulate. It never explains or defends its policies, even after the event, and it never reports upon the conduct of its stewardship. This has the result that the Bank far too often gives the impression of an attitude of indifference towards public opinion. And in the third place, it is answerable to nobody for its policies, and there is no means by which those who may have forfeited the confidence of the public can be removed, even after the passage of years, from office. In these circumstances it is all too easy to

represent the Bank's policies as autocratic, selfish, and anti-social.

In a democratic country these are anachronisms, and we believe that the time has come to make the bank a public institution, by subjecting it to some degree of public control. That control should be directed towards three main objects. First, the consent of the Government should be required for the appointment of the Governor and Deputy-Governor of the Bank; the most practicable scheme would probably be for the Court of Directors to submit a list of names from which the Government might choose. Secondly, the Governor of the Bank should be provided with an Advisory Council representative of, and perhaps even nominated by, industry, commerce, labour, commercial banking, and economic science. This Advisory Council would enlarge the somewhat restricted experience of the present Court of Directors, certainly of that executive committee known as the Committee of Treasury; it should sit regularly and should be empowered to call for information on the policy and operations of the Bank. Thirdly, the Bank should be enjoined to take the public into its confidence to a far greater extent than it does at present. The American Federal Reserve Board publishes a monthly review, an annual report, frequent official statements, and statistical data of unparalleled extent and excellence. The Bank of England publishes only a Statistical Summary, which, though excellent of its kind, is almost entirely a digest of information obtainable elsewhere and devoid of explanatory comment. So far as we know, no harm has come to the Federal Reserve Board through the wealth of its publicity, and the Bank of England might well be recommended to proceed at least as far.

There are several ways in which the change in status could be technically effected. For example, the course could be taken of amending the Bank Act and imposing the new duties on the Bank without affecting the proprietors' ownership. The Bank would then, while still having some share capital in private ownership, be directed by publicly nominated officials—as is, for example, the London Passenger Transport Board. The Bank could alternatively be authorized to issue to the Treasury new capital in the form of shares with plural voting rights. Private individuals and the State would then be joint owners, the latter having the control. In either of these two cases, it would probably be advisable to set a maximum limit to the dividend that might be paid. Or lastly, the existing proprietors could be bought out by the simple device of substituting securities with a legally fixed income and no voting rights for the present stock with its conventionally fixed dividend and limited voting rights. In any case, whatever be the exact legal form, the substance of real public control must be secured.

It is important, however, to make it clear that these proposals do not envisage any greater interference by the Government in the *day-to-day* policy of the Bank. The Government should lay down the long-term principles of currency and credit policy; it should, for instance, decide whether or not the gold standard is to be restored, or whether a stable price-level is to be the object of policy—but the Bank should be free to carry out this policy without day-to-day interference. The supreme task of a Central Bank in a modern economy must be to moderate the swing of the Trade Cycle. Since the fluctuations of public psychology are among the most potent causes of the Trade Cycle, it necessarily

follows that anyone who attempts to moderate the excess of boom and slump must for a large part of the time fly in the face of public opinion. A conscientious central banker will frequently be unpopular. In a democratic State the will of the majority must ultimately prevail, but it is essential to save the majority from the consequences of its own temporary moods; the qualification is not necessarily a derogation of true democracy. We therefore propose that the Governor of the Bank of England should hold office for a period of years not less than seven, and that during his tenure of office, subject, of course, to his absolute obligation to accept and execute the long-term policy of currency and credit laid down by the Government, he should be entirely free as regards his day-to-day actions from political pressure, and removable only by agreement between the Court of Directors, the Advisory Council, and the Government, or by an address to the Crown from the House of Commons. In other words, his position while in office should be as independent as that of the Judges.

THE JOINT-STOCK BANKS

The man in the street never comes into direct contact with the Bank of England save for using its notes, which form the currency of the land. To him the banking system means the commercial, or so-called joint-stock, banks in Great Britain, and of these by far the greater part of the business is done by the "Big Five", whose branches are in every town and whose names are familiar to everyone. We may without distortion think of the Big Five alone when considering the problems of commercial banking.

There are many complaints urged against the Big Five. They are said to indulge in wasteful competition by the unnecessary multiplication and needlessly luxurious character of their branch offices. They are said to be governed by "red tape" to such an extent that the old personal relationships between banker and customer have disappeared and loans are no longer obtainable on personal credit without marketable security, which many small business men are unable to provide. In a period of low interest-rates such as the present there is naturally much complaint against the relatively high rates charged by the banks for overdrafts or advances; the relative maintenance of the banks' own profits is contrasted with the burden of their high charges on struggling businesses. Finally, there is a large section of opinion which takes its stand on broader grounds than these and holds that the banks perform functions and exercise an influence on the economic life of the country far too important to be entrusted to uncontrolled and secretive private institutions. There is in some quarters a fear that if the State extended its sphere of operations further than was approved by orthodox opinion in the City of London, the banks might use their control of credit to starve socialized industries or to ruin Government enterprises. As a remedy for these defects two courses of action have been suggested: first, the nationalization of the joint-stock banks; and second, their subjection to the degree of public control appropriate to a Public Utility, without proceeding to the length of outright nationalization.

Before these complaints can be justified or a choice be made between the alternative remedies of Nationalization or Public Utility status, it is necessary to clarify

our ideas on the function of the joint-stock banks. Their duties to the community are to keep safely the deposits entrusted to them by the public, and to distribute equitably, and as cheaply as may be, the total available volume of short-term credit. These are the two duties; but the former of the two is the more important. In Great Britain the public is inclined to form its opinions on the assumption that the provision of an adequate and cheap volume of credit is the sole task of the banks. But that assumption is only possible because we have been fortunate enough to have a banking system whose liquidity and solvency have not in recent years been doubted. It is impossible to exaggerate the importance of complete public confidence in the banking system. In those countries where that confidence has been lacking, notably the United States, the effect has been to set in train deflationary influences of the utmost potency, to inflict a progressive paralysis on all enterprise and to hinder most, if not all, measures of economic recovery initiated by the Government. In Great Britain we have gained greatly as the result of our "cheap money" policy, and almost alone of the great nations we have for more than two years been recovering in the normal manner from the depths of the crisis. But without confidence in the banks, cheap money, and recovery with it, would have been impossible. It is only fair to recognize that this confidence is at least in part due to the belief that the State would not allow any one of the Big Five to close its doors. But since there has not been even a remote likelihood of this ultimate guarantee being called upon, the banks are entitled to attribute the placidity of public opinion to confidence in their own sound policies as well as in the readiness of the State to prevent a crash.

Any proposals for banking reform must therefore be tested by the supreme criterion of their probable effect on public confidence in the banks. We do not think that nationalization of the joint-stock banks, regarded by itself, would necessarily diminish that confidence. But on the other hand it could hardly increase it. And if nationalization is proposed merely as the preliminary to a revision of the lending policies of the banks, the position is altered. To cheap and abundant credit there can be, in principle, no objection—indeed, we have later some proposals looking to this end. But if credit is to be made cheaper and more abundant by forcing the banks to depart from what they consider to be the principles of sound banking, several very important questions are raised.

Some of these questions may be briefly mentioned here. In the first place, the joint-stock banks are not responsible for the available volume of credit, which is determined by the Bank of England; and it may be remarked in passing that an excessive volume of credit, by stimulating an inflationary expansion, may have results ultimately as harmful as those of an inadequate volume of credit. The joint-stock banks are responsible for the distribution between the conflicting claims of different industries and different kinds of borrowers of the volume of credit determined by the Bank of England. It is nowhere suggested that they perform this duty to perfection. But the problem is whether a different set of officials, appointed after the nationalization of the banks, would perform the duty any better. In some respects they would undoubtedly perform it worse, as a State banking system would, in the nature of things, have to work even more to formalised rules, and pay even less attention to such intangible things as the

personal reputation of the borrower for honesty, than the present Big Five.

Other advocates of the nationalization of the banks are inspired by fundamental misconceptions of the nature of a deposit banking system. These critics observe that projects which, though requiring a long development period, would be profitable in the long run, or which, though promising a small return in actual cash, are of great social value, are held up for lack of finance;—and they blame the banks. All observers will be agreed that our capital resources are now most inefficiently and inequitably distributed—but not that the task of reform should be thrust upon the banks. It is not the business of the banks to lend money for long periods of time, and since it is vitally important to them to preserve the full confidence of their depositors, they must insist upon the financial soundness, in the narrowest sense, of any project which they assist. These two rules are fundamental to any deposit banking system. Although critics in England complain, by inference if not directly, that the banks observe them too strictly, in America, where the experience of departing from them has been devastating, the banks are strongly criticized for not adhering to them with the utmost strictness. Indeed, the latest American proposal is that banks receiving deposits should be entirely prohibited from making advances to industry, lest in so doing they should lend with less than perfect discretion. The guiding rule of British banking has always been that advances should liquidate themselves in a brief period and that they should be based upon adequate financial security. It is within the knowledge of everyone that the rule is sometimes departed from, but it is also within the knowledge of everyone that many of the

most conspicuous departures have also been conspicuous failures. If nationalization of the banks would mean any relaxation of this rule, we believe that it should be most strenuously opposed. We sympathize with those who wish to mobilize more effectively the collective financial resources of the community, but we do not believe that the banks should be made the agency of such a mobilization. In the last section of this chapter we make certain alternative proposals.

On balance, therefore, we do not recommend the nationalization of the joint-stock banks. We believe that the second line of advance, that of subjecting these banks to regulation rather than taking them over *en bloc*, is likely to be the more fruitful.

Nothing of what has been written above detracts in any way from the fact that the joint-stock banks perform a function of the utmost public importance. The greater part of the money of the country is deposited with them, and this alone would be sufficient ground for subjecting them to public control, for regulation of the currency has always been among the prerogatives of the State. We are of the opinion that the joint-stock banks should be accorded a status corresponding to their actual position, which is that of one of the largest and most important of our Public Utilities. They should remain under private ownership, but their profits should be limited, their actions should be subject to control and review, their functions should be defined by legislation, and they should be under the obligation of giving the public the fullest information on their transactions. More than that, a permanent Banking Commission or Authority should be appointed, empowered to inform itself on all their activities, and approve their scale of charges, with full access to their

books and in a position to consult with and advise the banks on the discharge of their duties, especially in regard to the qualitative distribution of credit among the various alternative uses.

We believe that a system of this sort is much more suited to the joint-stock banks in the present phase of development than a policy of forthright nationalization. What the public needs in relation to its banks is knowledge and regulation rather than ownership. We have already explained in Chapter IV that we do not foresee one form of organization for every industry whatever its nature or stage of development. Commercial banking is, in our opinion, pre-eminently a case for what we have described as the Public Utility form of organization.

CURRENCY AND CREDIT POLICY

The structure of the banking system having been considered, something remains to be said upon the policies that should be pursued. These policies divide themselves into the two heads of currency policy and credit policy. Currency policy concerns the value of the British currency in relation to other currencies; credit policy concerns the control of the domestic money market and the regulation of the supply of credit.

The problem of currency policy has in the past been presented in the form of a bare alternative between the gold standard and the so-called "managed" currency with fluctuating exchange rates. Within the last decade we have had ample evidence of the defects of either alternative. The gold standard, though it stabilizes the exchange rates and facilitates the international movement of goods and capital, limits the freedom of action

of domestic credit policy and subordinates it to the need for keeping in step with the developments of the outside world, however unstable they may be. When in addition the currency is stabilized at a figure which over-values it, the depressing effect of attempting to stay on the gold standard is, as we know from experience, sufficient to limit very drastically the degree of prosperity attainable. On the other hand, our experience of fluctuating exchanges since the autumn of 1931 shows that, while they assure a certain amount of freedom and independence to domestic policy, they hamper and throttle international trade, which is a matter of vital importance not only to our national economy in general but to the solution of the unemployment problem in particular.

The solution of this dilemma—so far as a solution is possible—is in our opinion to work towards a new international currency system which shall have more stability than the present régime of fluctuating exchanges but more flexibility than the gold standard as we have known it in the past. The most promising suggestion is that currencies should be re-linked to gold, but at parities which could be changed from time to time. There would consequently be day-to-day, perhaps even year-to-year, stability of the exchanges, but with an avenue of escape always open to any currency which found itself in a position of maladjustment. There are many questions to be settled before it can be said with confidence that such a system is workable. In particular, there must be international agreement on the conditions which would justify a change in the gold parity of a currency; for if the power is to be used arbitrarily and aggressively it will merely result in confusion worse confounded. But we believe

that it is along these lines that an international monetary system suited to the economics of modern nations can be found, and we believe accordingly that British currency policy should be directed towards achieving this end.

In present circumstances this involves first an increasing co-ordination of policy with the "sterling area" countries, in which the British Government should take the initiative; after stability of exchange rates with these countries has been maintained without difficulty for some time, the position should be formalized in a provisional stabilization. Next, the same procedure, leading, if successful, to a provisional stabilization, should be followed *vis-à-vis* the American dollar. And later, there should be negotiations on a similar basis with whatever remains of the gold *bloc* proper. A world-wide stabilization of exchange rates will only be possible if and when it has been practicable to arrange for a concerted international monetary policy, approved by the Governments, and executed with adequate safeguards by the Central Banks working in co-operation, which will prevent gold from being allowed to impose serious and dislocating changes in price-levels. Any plans for an international monetary system, however rudimentary, are dependent upon the speed with which international economic collaboration can be reorganized. These proposals are therefore directly connected with those in the chapter on Foreign Trade (Chapter VI).

Credit Policy.—Domestic credit policy, within the limits laid down by currency policy, must be distinguished according as it is intended to apply to the particular conditions of the present time or to the differing circumstances of a long period of years. Policy

for the present emergency belongs properly to Chapter IV on National Development and need be sketched here only in the briefest outline. Broadly speaking, its aim should be a moderate increase of prices to compensate for the preceding deflation. This does not mean a return to the previous level of prices, since many adjustments have been made, costs reduced, new loans contracted, etc., on the basis of the lower level of prices now prevailing. But the increase should be sufficient to lighten the further task of bringing costs below prices and thus restarting activity where it is now checked. This being the aim, the methods should be partly to keep money plentiful and cheap, and partly to increase the effective demand for it by public expenditure on national development on the lines proposed in Chapter IV.

In the longer run, the task of the Central Bank in regulating credit policy should, as far as it is compatible with its international currency policy, aim at preserving stability. This somewhat vague requirement can perhaps best be envisaged as meaning the stability of the general price-level, although this must not, of course, be taken as meaning the stability of any particular price, nor does it exclude the desirability of allowing prices to fall gradually as improvements in industrial technique lower the level of costs of production. The condition of stability, or economic balance, is not easy to define, but the practical task of the Central Bank should be to avoid, on the one hand, any increase in the general price-level (a satisfactory level being once attained), or on the other hand any creation of unemployment through a "deflationary" fall in the price-level. If the Central Bank can keep within these two limits it will have fulfilled the requirements of

stability in as high a degree as is practically attainable. In order to carry out this policy the Bank of England must always retain the power to restrict credit when it believes that an inflationary position is developing. But the need for the exercise of this power will be diminished in proportion as the reform of the general economic and industrial structure secures a co-ordinated distribution of the available resources of the community. We may hope, therefore, that the need for credit restriction with its necessarily depressing effect on the general economy, will not so frequently arise. The power to check inflation by monetary policy must remain with the Bank, but, subject to this power, credit should be as cheap and abundant as possible. The joint-stock banks, in turn, must in the interests of their depositors be left free from any kind of political pressure in investing their resources and in exercising their judgment as to the credit-worthiness of a given borrower. But, this condition satisfied, it will be one of the duties of the Banking Commission to see that credit is kept as plentiful and cheap as possible.

THE MOBILIZATION OF CAPITAL

The origin of the whole capital wealth of the country lies in savings. The individuals and the corporate bodies which make up the public do not spend on consumption the whole of the income accruing to them. Individuals may purchase investments out of part of their incomes or allow their bank balances to accumulate. Limited companies, instead of passing on all their earnings in dividends to their proprietors, may prefer to keep substantial amounts in reserve or to utilize part of their earnings to replace or extend

their capital equipment. In all these various ways the nation saves a considerable proportion, ranging between a tenth and an eighth, of its income. It is of the utmost importance that the resources set free by this saving or "abstention from consuming" should be used to increase the physical capital equipment of the country. This importance is threefold.

First, if the savings are not utilized but allowed to lie idle, the serious dislocation of the economic mechanism which we know as a depression is bound to ensue.

Secondly, if the attempt is made to accumulate mere money wealth without utilizing it to increase the actual physical capital wealth of the nation, those who have saved can exercise the claims which their accumulations of money give them only at the expense of the rest of the community. In these circumstances, saving and the lending of savings lead only to usury and the enslavement of the debtor.

And thirdly, the increase of capital goods is the surest, and indeed almost the only, way of securing a rising standard of living. The fact that our present standard of living is higher than that of past ages is almost entirely due to the fact that the world into which we were born was more plentifully equipped with capital goods, some of them in private ownership, others freely shared by every citizen.

The process by which saving, which is a mere abstention from consuming, is translated into actual capital equipment, which will be useful to, and increase the disposable resources of, the future, is therefore one which vitally concerns the welfare of every one of us. The difficulty of the problem arises very largely out of the fact that the persons and institutions which do the saving are not the same as the persons and institu-

tions which provide the capital goods. Every society must therefore evolve a mechanism by which the savings of the public can be made available to those who are prepared to provide capital goods. This transference is largely accomplished by means of lending and borrowing, the providers of capital in the physical sense soliciting the loan of savings (which may be regarded as capital in the monetary sense) by offering the savers, in the form of interest or dividends, part of the anticipated yield of the capital in the future. This is what is known as the capital market.

A perfect capital market would be one which provided a smoothly working and inexpensive mechanism for collecting all the available savings of the nation and investing them in ways which would increase the useful capital equipment of the community. This is plainly an ideal; no one can foresee the future sufficiently to know what is or what is not a safe investment. But even within the bounds of what is practically possible, the existing capital market in Great Britain leaves very much to be desired. We believe that most of the criticisms of the present monetary system, in so far as they have substance at all, will be found on examination to refer to the unsatisfactory working of the capital market, although many of them are expressed as criticisms of the gold standard, the Bank of England, or the joint-stock banks. It is consequently very desirable that those who wish to create an efficient monetary system should turn their attention to the capital market—the more so since plans for its reform, in the present state of our knowledge and experience, are necessarily in a rather more rudimentary form than is the case in some of the more familiar divisions of monetary policy.

In one respect the London capital market has for many decades worked smoothly and efficiently—in the provision of capital for loans to countries overseas. Several of the well-known banking houses of the City have devoted themselves to this business; their loans have, on the whole, been sound and judicious and have advanced the interests both of the borrowing country and of Great Britain. Even in the present depression, which has brought with it economic insanities which no banker could have been blamed for failing to foresee, the record of foreign loans publicly issued in London is, on the whole, very much better than the prominence given to one or two cases of default might lead one to suppose. According to Sir Robert Kindersley's estimates, the yield in interest and dividends of all British overseas investments amounted to 4·2 per cent of the nominal capital even in 1933, at the pit of the depression. This record is almost certainly better than that of those public issues of shares in recent years, of which the proceeds have *not* gone abroad. This strange comparison is due to the almost complete absence of an organization for dealing with domestic loans. A foreign loan is carefully considered and skilfully placed by firms who specialize in this kind of business and have a reputation to lose. Home issues have the advantage of no such parentage. They are usually issued either by individual promoters, by *ad hoc* companies, whose existence is frequently fugitive in more than one sense of the word, or by firms which, though perfectly reputable, are engaged in other lines of financial business, undertake issues only as a side line, and consequently do not consider that their reputation is substantially involved. As a whole, the process is expensive, wasteful, and too frequently fraudulent. In

both respects—both in the excellence of the machinery of overseas investment and in the lack of machinery for home investment—London is in the sharpest contrast with New York. The American financial system is in many respects weak as regards both its structure and its tendency to speculative excesses. But as an agency for the supply of capital to *domestic* industry it has an excellent record. In this particular sphere it shows—on balance and with the exception of one or two regrettable years like 1929—the qualities of continuing organization and responsible action which are exemplified in British *foreign* issues. But America's foreign loans have been as ill-judged, precipitate, and badly managed as many of the domestic issues that are floated in London. If New York has much to learn from London of the technique of foreign lending, London has at least as much to learn from New York of the methods of floating issues for domestic industry.

The contrast between the machinery of foreign and domestic investment in London is largely to be explained by historical facts. Throughout the nineteenth century and, indeed, until the War, British industry was predominantly financed by the large private capitalist. Most firms were entirely owned by a few people, and new capital needs, when they could not be supplied by the owning family, could be raised from among personal acquaintances. Apart from the very largest companies, such as the railway companies, a comparatively small proportion of industrial capital was raised in the public market. The great bulk of the savings of the nation flowed into investment without ever passing through the City of London. Such savings as were not privately invested in industry, or in land and house property, went into gilt-edged securities and

foreign investments, and only in a minor degree into British industry.

These circumstances have entirely changed. On the one side, an increasing proportion of the national savings is accumulated either in small amounts or by institutions such as insurance companies and building societies. And on the other side, British industry has increasingly found since the War that if it cannot raise capital in the public market, it cannot raise it at all. This is a new situation to which the City of London has not yet succeeded in adapting itself.

A reorganization of the capital market should have two main objectives in view, which can be distinguished as Regulation and Encouragement.

Regulation of the Capital Market.—On the side of Regulation, there is great need for a body which would perform regularly and intelligently the functions of control which have been sporadically and somewhat narrowly performed by the Treasury in recent years. In performing this task, the Planning Committee of the Cabinet and the Economic General Staff should work through a National Investment Board, which would find a very fruitful field for its work. Its first task would be to estimate as closely as it could the volume of savings which, not being directly invested by its owners in capital goods, is available for financing public issues of securities. Its second task would be to decide what proportion of this total should be made available for foreign lending, and this decision would of course be reached after considering the international position of this country, the volume and direction of its trade, and the commercial policy of the Government. The Board should also be able to form a rough idea, but without drawing up a rigid programme, of the

directions in which capital could usefully be invested. Equipped with these general guiding lines, the Board should endeavour to see that the available savings are sensibly distributed. It should centralize and co-ordinate, and itself supervise, the issue of all loans for the Government, local authorities, and public bodies of all kinds. It should further have the right to exercise a certain supervision over other issues. Semi-fraudulent issues and those which are obviously trading, for the sake of immediate profits to the promoters, on a purely temporary craze (some of the "gramophone" and "automatic photography" issues of 1928 are examples) should be strongly discouraged. Furthermore, the Board would be in a position to discourage issues of a kind which it considered to be already overdone, and conversely to encourage issues in directions where further investment seemed to it to be desirable.

These powers, though useful and important, are powers of Regulation. Their effect might be to reduce the volume while increasing the quality of public issues. But our need at present, and in all probability for some time to come, is for a larger and steadier, as well as a purer, stream of money flowing into industry. Encouragement must accompany Regulation.

Encouragement in the Capital Market.—It is comparatively easy to put down on paper the chief requirements of the capital market. But it is much more difficult to translate these ideas into facts, and since comparatively little thought has hitherto been devoted to this question, we suggest that the National Investment Board should be charged, in addition to its functions under the head of Regulation,

with the duty of creating an active and adequate capital market and of watching over its development. Progress must obviously be along two lines. In the first place, the machinery of a capital market is needed. There is need of domestic issuing houses or, in the American phrase, investment banking firms, which would regularly perform for domestic issues the services now rendered to foreign issues—that is to say, they would examine the terms of the issue, approve the purposes for which the money is to be used, and issue the loan with their recommendation (though not with their guarantee). Their reputation would consequently be involved in the general soundness of their issues and they would continue to give financial advice to the companies when formed. In the course of time the public would come to have confidence in the appearance of the name of one of these firms on a prospectus, while the benefits to industry would also be considerable. American investment banking allowed itself in the last few years before the crash to be caught up in the frenzy of speculation, but, looking at it from the angle of its services to American industry, no one can impartially examine its record without coming to the conclusion that the ease of access to the American capital market has been of the greatest assistance to American industry. What we need in this country is a mechanism of equal smoothness but without the speculative excesses of Wall Street.

But the functions of the issuing house, at the birth of a new enterprise, are those of the midwife rather than of the mother; it counsels and assists but does not invest its own substance. For the smaller and more hazardous type of enterprise another variety of institution is needed: the large finance company which will

itself purchase the securities of the business, nurse them for a period of years, and issue them to the public when they have matured. None of these functions can properly be performed by the State. They need high enterprise and the ability to take risks. Moreover, since heavy losses will sometimes be made, the opportunity to make considerable profits must be retained. But it is important to the State that there should be such machinery in existence, and its encouragement can properly find a place in a programme of economic policy.

Machinery will be of little use, however, without the willingness to use it. The British investor, whether in his individual or in his corporate person, has been spoiled by the abundance of Government securities. He must be educated to realise that the only source of future wealth to guarantee the security of his savings is the prosperity of industry—and, in the main, of British industry. Moreover, unless industry can secure a reasonable proportion of its capital in the form of ordinary shares, participating in the risks and the profits of enterprise, its capital structure will become progressively more rigid and top-heavy. That the small investor is more willing and anxious to invest in the equity of British business than might be thought is shown by the success of the so-called “fixed trusts”, a form of investment which has several technical disadvantages but provides the only way open to the small investor of spreading a small sum over a large number of industrial ordinary shares. The counterpart of the investor’s willingness to invest must be the industrialist’s willingness to raise capital. At present British corporate finance has all the outward signs of privately-owned business although it is in fact increas-

ingly owned by a large section of the public. Company accounts are secretive and uninformative. There is not one large British company which gives its proprietors as full and as frequent information on its operations as virtually every large American Corporation voluntarily provides. The shareholder is too often regarded as the patient ox.

A minor reform which would be of value in this connection would be a change in the status of the auditors of company accounts. At present they are elected by the shareholders, which means in practice appointed by the directors; and though the standards of the profession are high, it is frequently difficult under the circumstances for auditors to remember that they serve the shareholders and the investing public rather than the management. Auditors should be employed by, and remunerated by, a professional Institute of their own, and the company should pay its audit fees not to the individual accountant but to the Institute. This small reform would, in our opinion, greatly increase the value of company accounts. British industry must increasingly become a true and open partnership between those who manage it, those who labour in it, and those who provide the capital, instead of being the closed preserve of the race of company directors.

All these and many other matters must be seriously considered in the years immediately ahead. We reiterate here what was said above: that in our opinion this is by far the weakest section of the nation's financial machinery, and that most of the somewhat vague complaints against that machinery can be traced to the defects of the capital market. It is consequently all the more important that energetic attempts at reform

should be made in this field. Real success in this direction will do far more than nationalization of the Bank of England or reform of the joint-stock banks towards creating a really sensitive, efficient, and pliant financial system.

CHAPTER VI

FOREIGN TRADE

THE NECESSITY OF INTERNATIONAL TRADE

WE have already set out some of the reasons that impel us to attach the greatest importance to a revival of international trade. Great Britain is not suited, by her climate, her size in relation to her population, or her natural resources, to be a self-sufficient country. It will in any foreseeable circumstances be necessary for us to import some of the raw materials and some of the foodstuffs we require, and there will be a corresponding necessity for us to devote some of our resources of men and capital to the export trades in order to pay for our imports. Even if we were in a position to wipe clean the slate of our present economic structure and redistribute as we wished the population, the industries, and the wealth of this island, we should still have to allow for more foreign trade than is absolutely necessary for other countries which have greater natural possibilities of self-containment. Great Britain will always be interested in foreign trade; the only room for difference of opinion concerns *how much* foreign trade we are to have, and on what principles it is to be conducted.

For nearly a hundred years British policy was founded on the assumption that we want the maximum possible volume of foreign trade, and that if every country

specializes in producing those goods or those services in which it most excels, the wealth of every country will be increased. Most foreign countries never adopted this policy, and even the converts to it have abandoned it in recent years. Since 1932 Great Britain herself has abandoned the policy. This decision is still disputed; the battle of Free Trade *versus* Protection is still being fought.

We do not intend to intervene in this controversy. Indeed, for our present purpose it is beside the point. It is not necessary to reach agreement on the general question of Free Trade *versus* Protection before an agreed policy for meeting the immediate emergency of international commerce can be drawn up. We believe there is a practical programme capable of immediate application, upon which both Free Traders and Protectionists can agree, without either of them abandoning their general position. This programme is based upon the fact that, whether or not we believe in having as much international trade as we had in the Free Trade days before the War, we certainly need more international trade than we have at the moment. We have called this a fact; and, indeed, it is so clearly demonstrable as to warrant the name. For a large part, probably more than half, of our present unemployment is due to the decline in exports. This does not, of course, mean that more than half of the unemployed are directly connected with the export trades. But the decline in exports is not responsible for the idleness in coal mines, shipyards, and cotton mills alone. It is also responsible for the unemployment caused by the poverty of the coalminers, the shipwrights and dock-workers, and the cotton operatives. If Durham and Lancashire and South Wales were to recover their trade, there would be more employment not only in the export trades, but

in transport, the food and clothing trades, and the great variety of industries that cater for the needs of the people. It is, of course, true that the decline in the export trades has had compensating advantages to those domestic industries which have been protected, and that there is an offset, in the increasing activity of these industries, to the mass of unemployment in the exporting trades. But it is obvious on the most summary examination of the facts that the volume of unemployment that has resulted from the decline of foreign trade has not been fully compensated by the stimulation of domestic industries. A revival of the export trades, even if it involved a check to the expansion of some of the protected home industries, would undoubtedly result in a net gain both in the volume of employment and in the national income.

Now it may be true—it almost certainly is true—that the export trades will never revive sufficiently to re-employ all those who have been thrown out of work by their decline, and that it will be necessary in the future to devote a smaller proportion of our resources than in the past to making for export. Some people would welcome this, some deplore it. But in the immediate present, there can be no shadow of doubt that the unemployment problem will be far easier to solve if there is a revival in the export trades. Transfer of the workers in the export trades to other employments is at best a very slow and painful business; there would in any case be a residue left behind who would have to be supported for the rest of their lives. With at least half of the unemployment due to the decline in foreign trade, a revival in that trade provides far the best hope of a rapid re-absorption of a large number of those now out of work.

To state the desirability of a revival of the export trades, however, is not the same thing as proving that it can be accomplished. But there are three decisive reasons for refusing to accept the present export stagnation as permanent. The first is that the world is still deeply involved in a depression which has brought quite exceptional conditions of trading. Wherever a country has started to revive, it has (with very few exceptions) increased its purchases of British goods. World recovery will therefore undoubtedly increase the scope for British exports. The second is that the growing industrialization of the outlying portions of the globe, so frequently given as the cause of the decline of British exports, is not nearly as serious an obstacle to British trade as is generally believed. Indeed, of our five largest customers in 1929, three—the United States, France, and Germany—were countries in almost as advanced a phase of industrialization as Great Britain, while a fourth—Australia—had for many years given her own industries very considerable protection. Germany, even in 1934, with all her exchange restrictions and tariff barriers, purchased, per head of her population, half as much again of British exports as India, where British goods are favoured and there were neither exchange restrictions nor prohibitive tariffs. The third reason is that Great Britain has not hitherto made any consistent attempt to seize her opportunities of developing her export trades.

The export industries are at present the most prolific breeders of poverty, idleness, and distress. In any programme of national regeneration they are entitled on every ground to the first attention. The quickest, easiest, and most natural way of reviving them is to

restore to them their former markets overseas. This, without any abstract considerations of Free Trade or Protection, is the justification for encouraging, by every means in our power, a revival in the export trade of Great Britain. It may be that we are over-optimistic in assessing the possibilities of success, but the alternative of changing the mode of livelihood of so considerable a fraction of the working population and of writing off as lost a large part of the industrial and social capital of the country involves so much loss, so much misery, and so much delay, that it is well worth our while to make every possible effort to expand our export trades.

THE IMPLICATIONS OF TRADE

A policy of increasing our exports has certain implications for the remainder of our economic programme. In particular, it has certain inevitable reactions upon the remainder of our commercial relations with foreign countries. It is, of course, not true that a country's merchandise imports and its merchandise exports must be at all times exactly equal, nor is it true that an alteration of the one is necessarily followed by an exactly similar alteration in the other. But there is nevertheless the closest relationship between the different forms of commercial or financial intercourse with the outside world; and the total of a country's payments to the outside world—whether for goods or services received, or in interest on past borrowings or in foreign loans or investments, or for any other purpose—must equal the total of its receipts from the outside world in the same period. This so-called "balance of payments" can be illustrated by the estimated figures

for the United Kingdom in 1933, which were as follows:

	<i>Million £</i>		<i>Million £</i>
Imports of Goods .	685	Exports of Goods .	422
Net Foreign Lending ¹	2	Receipts for services	105
		Interest and dividend receipts .	160
	<hr/>		<hr/>
	687		687
	<hr/>		<hr/>

A moment's reflection will show that the two sides of this balance must always be equal; when lending and borrowing are included, the receipts of any nation over any period of time must equal its payments. To set the figures out in this way also makes the alternatives of policy quite clear. If exports increase—that is, if the first figure in the right-hand column becomes larger—it necessarily follows *either* that one of the two other right-hand figures must *diminish* correspondingly, *or else* that one or other of the left-hand figures must *increase* correspondingly. If exports are to increase, either our receipts from other sources must diminish or our imports of goods must increase or we must make larger loans to overseas countries.

All this is, of course, platitudinous and would hardly be worth setting out at such length were it not that nation after nation, our own not excluded, has attempted in the last few years to ignore its simple logic. They have attempted to control one part of their commercial relations with the external world and have then

¹ "Net Foreign Lending" includes the net balance not only of long-term loans to and from this country but also of short-term loans and commercial credits. The composition of this omnibus item may of course differ greatly at different periods; sometimes—as in 1931—the item may be a negative one (*i.e.* net borrowing from abroad) and may be so large and of such a character as to produce a financial crisis.

tried to avoid the inescapable results of their action. They have cut down imports and refused to lend abroad, and have then professed pained surprise at the decline of exports and the default of foreign debtors. Now there is no objection in economic theory to the planning of foreign trade, provided it is planned as a whole. There is no objection to an attempt to alter by governmental interference the appearance of the balance of payments, provided that it is recognized to be a balance. The only impossible policy is one which attempts to defy the laws of arithmetic.

In our own case, the alternatives are quite clear. We wish to induce an expansion of exports, and the next section of this chapter will contain some proposals to that end. But before we start on a policy of expanding exports we must be quite clear what it implies. We obviously do not desire an increase in the export of goods to be merely at the expense of exports of services (shipping, insurance, etc.) or at the expense of our receipts of interest and dividends on our foreign investments. We may take it, then, that an expansion of exports must be accompanied by an expansion in the items of the left-hand column of the table printed above. Some increase of foreign lending is to be welcomed. There are and will continue to be countries in need of capital development; and it is right and proper that this capital should continue to come, so long as it is needed, from those countries which have furnished it in the past and are in a position to continue to furnish it to-day. Moreover, we cannot for ever refuse further accommodation to those countries, many of them within the Empire, whose economies have been largely built up on recourse to the London capital market. But it is unlikely that the revival of overseas

lending will be sufficiently large to keep pace with the expansion of exports that we hope for. It is likely, therefore, that an increase in our earnings from exports—which, as we have seen, is essential to any rapid and reasonably complete solution of the unemployment problem—will involve at the same time some increased expenditure on imports. There is no reason to regard such an increase with apprehension. Some of the imports will be the necessary raw materials of British industry. Again, as commodity prices rise, the value of our imports of food and raw materials will automatically increase. Even competitive imports of manufactured goods, though they are, of course, unwelcome to the industries directly affected, increase the income of goods available for consumption by the community as a whole.

This conclusion does not, in itself, imply that the protective duties accorded to British industry in the past three years are either too high or too low. The British tariff is not even now very high, as protective tariffs go in the post-War world. But it does imply certain limitations on British tariff policy for the future. For example, it is sometimes advocated that we should buy from abroad only those goods which it is physically impossible to produce at home. But if we do this, our imports will diminish instead of increasing. Furthermore, the price of many of these goods produced at home in the shelter of a high tariff wall will be considerably higher than the price of the same goods imported from abroad. The costs of our exporting industries will go up and their competitive position will be worsened rather than ameliorated. It should be remembered that, with the exception of coal to some countries, there is not a single one of our major exports which the importing

countries could not produce for themselves if they chose to. Our only possible basis of competition is a combination of cheapness and quality.

It follows that whatever principle is to inspire our tariff policy, one principle is emphatically not suitable for our circumstances: protection must not be granted so as to guarantee the existence of every industry which is, or could be, established in this country. Tariff rates should be fixed not only in the light of the benefits they will confer on the industries to be protected, but also after consideration of the difficulties they will place in the way of the export trades. The latter factor, though less clearly traceable, is of at least equal importance with the former. We must recognize that cases will occur in which the domestic industry must be denied, in the interests of the export trade, the degree of protection which would enable it to surmount foreign competition; we must deliberately reconcile ourselves to importing many goods which, given adequate protection, could be made at home. The loss will be direct and those who suffer it will be vociferous; but it should be the part of wise policy to remember the gain to the community as a whole, which, though it may receive far less public expression, may nevertheless greatly outweigh the loss to particular interests. The interests of the community at large, given the fact that its unemployment is now concentrated in the export trades, will undoubtedly be best served if the efforts to expand export markets are assisted by a willingness to keep import duties within very moderate limits.

This general discussion suggests one important conclusion concerning the technique of tariff-making. Under the system set up by the Import Duties Act of

1932, tariff duties on different articles are separately considered and determined. There is a general duty of 10 per cent on all imports except those in the Free List and those dealt with under different enactments; duties above the level of 10 per cent are imposed on the recommendation of the Import Duties Advisory Committee and at the request of the industries affected. As a result, our tariff list is becoming detailed and complicated.

A system of this sort, without any basic policy to guide its operation, has, in our opinion, grave disadvantages. In the long run, perhaps the most serious of these disadvantages is that the rates of protection tend to be fixed at the request of the interests directly affected. When legislation begins to affect the direct interests of particular sections of the community, the door is opened to any number of abuses. We have had ample evidence in other countries of the corruption, the lobbying, and the log-rolling which are summoned into being by the existence of a variable tariff. Even when there is no question of corruption, the possibility of securing an increase in protection is an invitation to industries to organize themselves and to bring every possible kind of political pressure to bear upon the authorities who fix the rates. The existence of an independent Advisory Committee is to some extent a safeguard against some of these dangers. But such a body, while capable of applying a prescribed policy in detail, is unsuitable for constructing the policy itself. Indeed, there is no system of government yet devised which has shown itself capable of entirely ignoring the clamorous representations of these highly organized vested interests. A tariff of this sort inevitably compels industries to consider how they can

most effectively organize themselves for their special benefit.

But even if lobbying and the dangers of political pressure can be entirely obviated, the system of duties varying from one article to another has a very grave fundamental defect. The authority which has to consider the applications, whether it is an Advisory Committee as now or is acting in conjunction with the Chancellor of the Exchequer and responsible to Parliament, must have some general principle to work to, if only for the sake of consistency. Now if applications are to be dealt with separately there is only one principle which the authority can bear in mind, there is only one criterion by which it can judge the rates of protection asked for—and that is the so-called “scientific” principle. The “scientific” principle is, in brief, that the protective duty should precisely equal the difference in cost of production between the domestic industry and its foreign competitors. If costs are thus equalized, it is alleged that the domestic and the foreign producer will compete on equal terms. Now leaving altogether aside difficult questions such as the ascertainment of costs of production, the theory of the “scientific” principle is open to the gravest objection. For, carried to its logical extreme, it means the prohibition of all imports; nobody buys foreign goods except when he can get a better article for the same price or the same article cheaper. The “scientific” principle means that every industry is to be given sufficient protection to enable it to exist—in other words, it is the one principle which, as we have just seen, Britain cannot afford to support, for if it became the universal practice of the world, we should soon have no exports at all, except perhaps a little coal. But if the

Import Duties Advisory Committee is to consider each industry separately, is there a logical stopping-place between no protection at all and sufficient to guarantee a market? How under the present system is the Committee to arrive at any lower rate, or justify it when determined?

We discuss later some cases in which we consider that specially high duties are justifiable to protect industries which are decided to be of special national importance, in relation to a general national plan conceived as a whole, and others in which especially low duties are desirable as a basis of reciprocal arrangements designed to increase our exports. But subject to these important exceptions, we are of the opinion that, for a country in our circumstances, the best tariff system is one which does not attempt to discriminate between different industries. We think, therefore, that Parliament should, subject to the exceptions we describe, enact uniform maximum rates of import duty, not necessarily for the whole of our imports, but for whole categories. It might, that is to say, fix a maximum rate of x per cent for staple foodstuffs and raw materials, y per cent for semi-manufactures, and z per cent for manufactured goods. This would mean that British manufacturing industry would be given a general protection of up to z per cent. Those industries for whom this was sufficient would enjoy the domestic market without foreign competition. Those for whom it was insufficient would not be established in this country. The nation would, in effect, be saying to them: "If you cannot compete with z per cent protection, we prefer to buy from abroad and thus assist our export trades; we are willing to pay so many shillings more in the £ in order to 'Buy

British', but no more". In this way, by a natural process of competition, the industries in which our competitive disadvantage does not exceed 2 per cent would settle here; other goods we should buy from abroad. We should still (provided the uniform maximum rate were not too high) be able to reap many of the material advantages of the international division of labour, and the volume of our imports would still maintain the possibilities of existence for our exporting industries.

These flat rates of duty, however, would be subject to variation in special circumstances. It would probably be necessary, for example, to include a provision for temporary emergency increases. There are occasions when the disorganization produced by a world depression leads to the unloading on the world's largest open market of goods at prices far below competitive levels. This sudden inflow of goods might well ruin a domestic industry which has been perfectly economic in the past and will be perfectly economic again when the emergency has passed. On the other hand, there must be the most stringent provisions for ensuring that these temporary emergency increases do not become permanent; their duration should be strictly limited, and renewal must be neither usual nor easy to procure. Secondly, provision should be made for increases of duty above the flat-rate maximum in the case of industries for which a definite national plan has been adopted. In the course of working out a national plan, the State may well decide that a given section of the national economic activities requires more than the degree of development to which it would normally attain. This decision may be reached for social reasons, for greater security in time of war, or for other reasons. The

important point is that it should not be arrived at merely in order to increase the incomes of those engaged in the industry, but because after due consideration of the national economy as a whole the nation, through its duly constituted organs, decides that the common interest would be served by the subsidization of that particular branch of industry. Exceptions of this sort, therefore, should be accorded only to publicly planned (perhaps in some respects publicly controlled) industries—and by no means to all such industries. It must be borne in mind that protection of more than the average amount necessarily gives the protected industry a favoured position in the national economy. Where such favouritism is deliberately decided upon after full consideration, it is fully justifiable. What is unjustifiable is the piecemeal construction of a lopsided system under pressure.

So much for the exceptional cases in which tariff duties of more than the flat-rate maxima would be allowed. But it would also be permissible to *lower* rates of duties. It is indeed, on such reductions, as the basis of negotiations to secure a reduction of foreign duties, that we place the greatest reliance for obtaining an increase in our export trade, and they consequently merit an extended discussion.

THE MEANS OF EXPANDING TRADE

Any considerable increase in our exports will almost certainly involve an increase in our imports, and if we prevent any increase in imports we shall make infinitely more difficult the task of securing an increase in exports. But it does not follow that if we merely open the doors to our market and welcome an increasing volume

of imports, an expansion of our exports will follow without any further steps being necessary. In a world which did not control its international trade, an increase of exports would ultimately follow from an increase in imports, but in the present controlled, and even strangled state of international trade, it cannot be counted upon. The time has passed for unilateral economic disarmament and for relying on the innate goodness or common sense of foreign nations to make them follow suit. The best way of securing markets for the British export industries in future will be to allow easy access to the great market of Great Britain only to those nations which in return undertake to buy our goods. The reciprocal bargain will be the characteristic commercial negotiation of the future. On a small scale this type of bargain has already made its appearance; the recent coal-for-cattle agreement with the Irish Free State can be cited as an example. But the extension of the same idea to a larger field involves some modification of the principles which have hitherto underlain our trade policy.

British commercial policy has hitherto been founded, as has that of virtually every other country in the world, on the principle of equality of treatment. With the significant exception of the Dominions and the dependent Empire, to whom we accord preferential rates, we treat every country alike; each country's goods are subjected to precisely the same duties; there are no penal discriminations, no differential advantages. In return we demand of other countries that they should accord us treatment at least as good as they accord to any other nation. Nearly all our commercial treaties contain the so-called "unconditional most-favoured-nation" clause by which both

parties pledge themselves to accord to the other treatment equal to that given to the "most-favoured nation" (preferences granted to the British Dominions or Colonies being always excluded). The "most-favoured-nation" principle has been of great value in the past. It is an obvious safeguard against discrimination and tariff wars. In a world of moderate tariffs, where reductions of rates were not unknown, the principle probably worked to secure, on balance, a lowering of tariffs. Any reductions agreed upon between two nations had to be extended to the rest of the world.

There are two categories of nation for whom the "most-favoured-nation" clause is of obvious advantage. The first category is that of Free Trade nations. Imposing no tariffs, they can obviously pledge themselves not to discriminate without in any way limiting their freedom of action, while on the other hand they secure for their exports the lowest tariff in force in foreign countries. The second category is that of countries with very high tariffs who are unwilling to consider agreements for bilateral concessions with other countries; the United States is the obvious example—or was until the legislation of 1934 placed in the President's hands the power to lower duties in accordance with bilateral agreements. These countries can promise with an easy conscience not to discriminate, for they intend to subject the goods of all countries alike to the same prohibitive tariff, while they can secure, by means of the most-favoured-nation clause, as free entry into foreign markets as any of their competitors. For these reasons the two countries which throughout the post-War era have been the staunchest defenders of the most-favoured-nation clause have been Great Britain

and the United States; the one (until 1931) Free Trade, the other with the highest tariff in the world.

Thus the clause has been of great usefulness in the past and has considerable merits to-day. But for a country with moderate tariffs, anxious to increase its trade, it has come to have certain severe disadvantages. Let us suppose that two countries of this kind are anxious to effect a mutual increase in trade by reducing duties on each other's exports. Belgium and Holland actually concluded an agreement at Ouchy in 1932, to halve their tariffs on each other's goods; and something of the same sort is the obvious prescription for the economic difficulties of the Danube basin. Belgium may be willing to reduce her duties on Dutch goods, in return for corresponding concessions from Holland; but she may be quite unwilling to reduce her tariffs on the goods of the whole world without any corresponding concessions in return. But this is what Belgium would have had to do, according to the provisions of her most-favoured-nation treaties with a great many other nations. The Ouchy Convention was consequently made subject to permission being obtained from other countries to confine its provisions to the two signatory powers. This permission was refused, Great Britain taking the lead in the refusal, and the agreement consequently dropped. The most-favoured-nation clause, far from widening the area of application of tariff reductions, is thus tending to prevent reductions from being undertaken.

It cannot be in the interests of Great Britain to increase the obstacles in the path of international trade. The method of bilateral negotiations which has been pursued by the British Government since 1932—and pursued, be it noted, with the countries most anxious

to trade with us—has borne disappointing fruits. In part this has been due to the fact that Great Britain, flushed with the first enthusiasm for Protection, has been unwilling to make sufficient concessions to gain substantial advantages in return. But in the main it has been due to the fact that neither party to a bilateral agreement has been able to make large concessions, since they would have to be extended to the whole world. The area of possible concessions has consequently had to be limited to commodities which are purchased only from the other party to the agreement. Coal and bacon in the Anglo-Danish agreement are examples. Denmark buys coal from very few countries other than Great Britain, while we buy bacon from very few foreign countries other than Denmark. As such pairs of commodities are very few, bilateral agreements do not lead very far.

If Great Britain is to secure a substantially greater freedom of access to foreign markets for her goods, she will be forced in future to confine her concessions to those who will grant concessions in return. This will involve some modification of the most-favoured-nation clause. How necessary this is may be seen from a glance at the conditions of Empire trade. The whole system of Imperial preferences, as well as the bargains struck at Ottawa, would have been valueless if they had had to be extended on equal terms to the rest of the world. Empire trade can only be given preferential treatment because it is regarded as an exception to the most-favoured-nation clause, and we propose no more than that the possibility of mutually advantageous trade bargains, which now exists as between the Empire countries, should be extended to our relations with foreign countries as well. The British Dominions are so com-

pletely independent in their commercial policies that it is very hard to find a logical justification for their exemption from a rule which is kept intact for all other sovereign nations. The British veto on the Ouchy Convention was delivered within a very few weeks of the conclusion of the Ottawa Agreements, and Great Britain thereby put herself in what, to foreigners' eyes, is the indefensibly hypocritical position of refusing to allow two small neighbouring States of Europe to do between themselves precisely what Great Britain herself was doing at the same time with her wholly self-governing Dominions.

The need for modification of the most-favoured-nation clause does not, however, mean that it should be entirely abandoned. On the contrary, its disappearance would lead to an infinitude of discriminations and conflicts. What is needed at the beginning is a provision for the exemption from the clause's operation of genuine reciprocal bargains for the increase of trade.

Great Britain should announce that she would not in future consider the clause as applying to reductions of tariffs negotiated under certain conditions. The chief of these conditions should be:

- (i) That a certain minimum number of countries (say five) were concerned in the tariff-reduction agreement;
- (ii) That it was a real *tariff-reduction* agreement, and not merely an agreement to raise tariffs against non-participating countries (as in the main the Ottawa Agreements were);
- (iii) That the reductions embraced a substantial part of the trade of the countries concerned; and
- (iv) Most important of all—that the agreement was

open to accession by any other country on the same terms—*i.e.* a lowering of its own tariffs.

Supposing that Great Britain offered in this way to found a "Low Tariff Club", what would be the response of other nations? How many would collaborate, and how many would refuse their consent to such a modification of the most-favoured-nation clause? We believe that the moral effect of British leadership would be as great in the commercial as it could be in the political sphere. Many nations at present, though forced to protect their industries by a *chevaux-de-frise* of tariffs, quotas, and prohibitions, are not at heart high protectionists and would readily join in any concerted effort to emancipate commerce. This applies in particular to the "ex-neutral" States of northern and western Europe and to many extra-European nations. But we need not rely on moral effect alone; there would be a powerful bait for members. Great Britain is incomparably the greatest market open to the world. We buy one-fifth of all the goods the rest of the world exports, and if purely local trade between contiguous countries is excluded, the proportion is even higher. We buy virtually all the meat the world exports, over one-third of all the wheat, and similarly high percentages of other commodities. There are several countries whose economy is so thoroughly adjusted to selling in the British market that they would be compelled to take whatever measures were necessary to secure the most favourable entry possible to that market. There are several more nations who, though not under such strong compulsion, could hardly afford to see themselves put at a disadvantage in the British market. For all these reasons we should expect to find a considerable proportion of

the commercial nations of the world entering the "Low Tariff Club". If it could be combined with some measure of provisional currency stabilization, as proposed in Chapter V, the number of entrants would be increased.

Some countries, however, would remain outside. But that does not necessarily mean that they would refuse assent to such a modification of the most-favoured-nation clause. Some of them, though not ready to join the British "Low Tariff Club", would be anxious to apply the same principle within groups of their own. Other nations would consent to the arrangement because of its essential fairness and because of their past recognition of the principle. The American nations, including the United States, went on record at the Pan-American Conference at Montevideo in 1933 in favour of the principle of exempting agreements of the sort we contemplate from the operation of the most-favoured-nation clause. The resolution which was passed reads (in part) as follows:

"With a view to encouraging the development of unified and comprehensive multilateral treaties as a vitally important instrument of trade liberalization, the advantages of which treaties ought not to be open to countries which refuse to confer similar advantages, the subscribing governments declare, and call upon all governments to declare, that they will not invoke their right to demand, under the most-favoured-nation clause contained in bilateral treaties to which they may be parties, any benefits of multilateral treaties which have as their general purpose the liberalization of international eco-

conomic relations and which are open to the accession of all countries. . . .”

In a model form of treaty which was also drawn up by the Conference, the agreements to be exempted from the operation of the clause are described as “multilateral economic conventions of general applicability, which include a trade area of substantial size, have as their objective the liberalization and promotion of international trade or other international economic intercourse, and are open to adoption of all countries”. It will be noticed that the conditions laid down by the Pan-American Union are substantially the same as those set out on page 143. In view of this resolution, none of these countries could in equity refuse its assent to a “Low Tariff Club” agreement sponsored by Great Britain.

We do not, for all these reasons, believe that there would be many objectors to the “Low Tariff Club”. And with the minority who did object Great Britain could safely denounce her commercial treaties. No one, of course, would suggest that Britain should seek tariff conflicts with any nation; but she has nothing to fear from them. There is hardly a country from whom we do not buy more goods than we sell, and there are many countries to whom we pay more for goods received than they pay to us for goods, services, and interest on loans combined. The trumps are all in our hand, did we but know it. If we play them well, it should be possible to increase our exports within five years at least to their level of 1929—that is, to increase them by about one-quarter of their 1934 volume. And if that were done, it would find work directly and indirectly for nearly a million of those who are now

on the dole. There are very few other proposals of economic policy from which so large a result can be so reasonably hoped.

This is only a brief outline of the commercial policy which we should like to see Great Britain follow, and it has many implications of which space does not permit the discussion. But two matters deserve a brief mention. One is the place of the Dominions and the Colonial Empire within the new system which we envisage. The other is the growing resort to quotas instead of tariffs.

A conflict still rages round the Ottawa Agreements in which we do not wish to intervene. But it is probably possible to secure general agreement with two principles which should regulate Empire trade. The first is that the British public will be willing for some time to come to grant a certain preference to the Dominions. That means to say that we should levy, on imports from a Dominion, duties lower than would be levied if that Dominion were a foreign country. But it does not mean to say that the Dominions are to have a preference to the exclusion of other nations; it does not mean that they are to take their fill of the British market before other nations are admitted, but only that they shall have a reasonable start. We cannot admit that agreements with the Dominions should entirely preclude us from making favourable bargains with foreign countries. The second principle is that we cannot afford to treat a Dominion which imposes uniformly high duties on our goods more favourably than a foreign country which welcomes our goods. A Dominion which joins the "Low Tariff Club" should be granted a lower tariff than the other members—or perhaps no tariff at all. A Dominion which refused to join the "Low Tariff Club" should pay a tariff lower than foreign countries

outside the "Club" but not so low as foreign countries within the "Club". Anything else would be a departure from the principles of reciprocity which must henceforward inspire our commercial policy.

The tariff policy of the Colonial Empire is, in the main, decided in Whitehall. Hitherto this has meant that the Colonies' tariffs have been moderate and non-discriminating. But there has recently been a tendency to use the Colonies' tariffs as part of a commercial policy designed to benefit not the Colonies but Great Britain. We believe that policies of this nature should be strongly deprecated. The Colonial Office, in regulating the tariff policies of the Colonies, should attempt to act on precisely the same assumptions as would be applied by a fully self-governing unit prompted primarily by a prudent regard for its own interests.

Ever since 1920, it has been the accepted policy of all parties that where the Government of India and the Indian Legislature are in agreement upon a fiscal matter, the Secretary of State will not intervene in order to protect the trading interests of Great Britain. The words of the Joint Select Committee on the Government of India Bill, 1919, seem equally applicable to the Colonies: "Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's Fiscal policy is conducted from Whitehall in the interests of the trade of Great Britain. That such a policy exists at the moment there can be no doubt. That there ought to be no room for it in the future is equally clear." We believe that the Colonies would enter the "Low Tariff Club". But they should be free to do so in their own interests, not in ours.

Quotas are products of the emergency. They arise

in part from the immoderate dumping which occurs when the international system loses its balance, in part from the desire to discriminate without infringing commercial treaties, in part from the necessity of debtor countries to reduce their imports more radically than could be effected by tariffs. We can see that, in an emergency, they have their uses. But they are open to the very gravest objection. In the first place, though they arise out of an unbalanced state of world trade, they confine trade absolutely within arbitrary limits and entirely prevent those readjustments from coming about which alone are capable of restoring a condition of balance.

Secondly, the quantitative restriction of imports inevitably confers an advantage on those who are licensed to conduct the restricted volume of trade allowed. It creates a new and valuable form of property right, the value, of course, being abstracted from the consuming public of the country imposing the quota. In 1932 we imported 12,192,188 cwt. of bacon and hams at a cost of £32,913,045. The imports in 1934 were 8,326,714 cwt. at a cost of £33,176,499. This increased value, for a smaller quantity of bacon and hams, may not have been entirely due to the imposition of the quota. But in so far as it was so due, it represented a gift from the people of Great Britain to the bacon exporters of other countries. The extra value in this case did at least get into the pocket of the producer. In other trades, where the whole supply passes through the hands of importing 'agents, the quota serves merely to enrich these firms. They can sell at a higher price in the importing country because of the restriction of supply by the quota, while at the same time the restriction of demand in the exporting country

enables them to bid lower prices for their supplies. This sort of effect is wholly indefensible. The quota should, therefore, in future be regarded entirely as an emergency or transitional weapon unless it is used in conjunction with Import Boards.

CHAPTER VII

AGRICULTURE

THE PLACE OF AGRICULTURE IN THE NATIONAL LIFE

THE problem of agricultural policy illustrates in an effective way the need for a general plan to which each section of our economic and social programme has to be related. The welfare of agriculture cannot be considered without regard to the special place which it fills in the national life; nor on the other hand can we afford to ignore the injurious reactions upon the rest of the national economy which might result from treating the claims of agriculture as the only or dominant consideration in framing our general plan. Our aim should be to maintain and foster the productivity and standard of living of workers on the soil without impairing the standard of living of the towns. How this can best be achieved is a problem which calls for a more dispassionate approach than is sometimes given to discussions of agricultural policy.

Though Britain is primarily an industrial and commercial nation, agriculture is still her largest industry. Moreover, its contribution to the health and well-being of the nation cannot be measured merely by the money profit which it returns or the capital and labour employed in it. The occupation of farming with its close contact with nature supplies elements in the mental

and physical life of the nation which it can ill afford to lose. The advantage which Britain has derived from cheap imported food must not blind us to the other side of the picture or make us indifferent to the deterioration which it has involved in the position of British agriculture. If we are to maintain a healthy balance between town and country the decay of agriculture must be arrested. As the Liberal Yellow Book of 1928 put it: "Agriculture is the last industry which ought to be left to its fate with the lazy phrase, 'If it is not paying, let it go!'"

During the hundred years between 1815 and 1914, Great Britain transformed herself from a self-supporting, largely rural, country, into a vast workshop, growing at home only about one-third or two-fifths of her food and importing the rest in exchange for her manufactured exports. There cannot be any doubt that Britain has made an enormous annual economy by exporting her manufactures in exchange for food. If the resources of capital and labour which were engaged in the export industries had been diverted into the direct production of food, they would undoubtedly have produced considerably less food from the soil of Britain than they could obtain by production of their goods for overseas exchange. Nor can it be said that the cheapness of imported food is always due to a low standard of living in the countries from which the food comes. Some of these countries doubtless have standards of living lower than that of the British agricultural labourer. But a very great deal of our imports of foodstuffs come from countries such as the British Dominions, the United States, and Denmark, where the standard of living of the rural population is, in normal times, at least equal to that of Great Britain.

The purchase of imported food in exchange for exported manufactures was, of course, a part of our national free trade policy. Since the War many things have changed, and it is frequently said that the system of international exchange has broken down. In many ways the statement is true. But as a provider of cheap food for Great Britain, it is emphatically not true that the system of international exchange has broken down. Throughout the post-War epoch we have never at any time had the slightest difficulty in purchasing food from abroad; we have suffered neither from greater scarcity nor from relatively higher prices than before the War (though food has, of course, been all too scarce and prices all too high for the proper nourishment of great numbers of our people). On the contrary, foodstuffs have been pressed upon us in embarrassingly large quantities at very low prices. Indeed, part of our trouble has been that the system of exchanging manufactures for foodstuffs has been, in one sense, working too well. The foodstuffs have been offered to us at such low prices that we have been able to buy all we wanted with a smaller quantity of our manufactures than before the War. That is part of the explanation of the post-War depression in our export trades: we did not need to send so many manufactures abroad as before the War in order to buy our food. In 1927 a given quantity of imported food could be bought with only seven-eighths of the volume of our manufactured exports that was needed in 1913. In 1934 the proportion had fallen to seven-tenths.

Importation is, therefore, still the cheapest way of securing the bulk of our food, and is likely to continue to be so. It is hard to calculate the benefits we owe to cheap food. It has helped to give our urban working-

class the highest standard of living in Europe. Moreover, cheap food has economic as well as social advantages: it enables a larger proportion of working-class income to be available for other purchases, and it enables British industries to combine low costs with high standards of living for their workers. During the present depression, for example, it has been of inestimable advantage to British industry that falling food prices have outpaced the decline in wages and actually increased the "real" purchasing power of those workers who retained their employment, while still enabling industry to reduce the level of its costs.

But the extreme cheapness of recent years has been to a large extent due to exceptional and temporary causes. During the present depression the restrictions placed on agricultural imports by other countries have intensified the pressure of supplies on the British market and have, in some cases, exposed the home producer to competition at prices involving acute distress and even bankruptcy to oversea producers. We cannot expect the extreme disparity which now exists between agricultural and industrial prices in the world market to continue; nor must we too readily assume that the low prices at which imported cereals, meat, and dairy produce have been selling on our markets during the slump reflect a permanently higher level of efficiency on the part of oversea producers. It is unfortunately true that the standard of living of many family farms producing wheat in Canada and dairy produce in New Zealand has been reduced during recent years below that of the average farmer and even of the agricultural labourer in Great Britain.

In the circumstances brought about by the worldwide slump, British agriculture has thus had a strong

claim to special assistance from the State. The protective measures recently adopted, whatever view one may adopt of the methods employed, have at least been successful in maintaining the standard of living of our agricultural workers at a time when the primary producers in exporting countries have been reduced to a state of extreme poverty.

In the last five years, food prices in Great Britain have shared to the full in the world-wide slump, and in addition to falling prices, the British farmer has suffered from increasing imports of foreign foodstuffs. If we take the period 1927 to 1929 as normal, imports of food in 1930 were, by volume, 5 per cent above normal, and in 1931 they were 16 per cent above normal. Average agricultural prices, on the other hand, fell to 93 per cent in 1930, and to 84 per cent in 1931, of the 1929 level. The home farmer was thus getting a lower return on a smaller proportion of the total market. From this predicament he has been partly saved by the departure from the gold standard and the protective measures recently adopted. Since 1931 agricultural prices have fallen somewhat lower, but the volume of imports has returned towards the normal level.

PRINCIPLES OF POLICY

In the light of this situation, what should be the main principles governing agricultural policy? Bearing in mind that we are an industrial country, with an enormous urban population and with unemployment concentrated in the exporting trades, how should we proceed to rehabilitate agriculture?

Two principles stand out quite clearly. In the first place, we cannot afford to forget that the unemployed

who have been thrown out of work by the decline in exports are themselves probably as numerous as all those occupied in agriculture. It is impossible, within any measurable time, to deal with the bulk of this large unemployment in the export industry except by the restoration of external trade. The methods of inducing such a restoration were discussed in the last chapter, and the obvious point was made that restoration of exports will be impossible unless there is a counterpart to them partly in new foreign investment and partly in increased value of imports. There is, therefore, a strong presumption, having regard to the general balance of trade and payments, that a substantial reduction of food imports would have the effect of preventing the desired increase in exports. Any agricultural policy which proceeds on the basis of an increasingly severe restriction of food imports will to that extent impede the solution of our most pressing national problem—namely, the reduction of unemployment in the depressed areas occupied by the exporting industries.

Secondly, a population with less than 10 per cent on the land is not likely to be prepared indefinitely to pay more for its food for the benefit of this small minority. Moreover, unnecessarily high food costs react through wage demands upon the whole economy of the country and are likely to put marginal industries (whether supplying the home or foreign market) out of activity by bringing their costs above the point of profitability. An industrial population which has to spend more on its food has less to spend on other things, and this reduction of buying power could not fail adversely to affect the activity of industries, not connected with food, which cater for the domestic consumer. In a

country ultimately controlled by democratic suffrage, it is improbable that 93 per cent of the population will submit to a substantial enhancement of the cost of its food for the benefit of a small minority, except as part of a bargain freely entered into and containing some definite *quid pro quo* for the urban multitude.

These considerations suggest that agricultural policy should not be directed towards restricting imports or raising the price of food to the consumer. Exceptional use of either device may be necessary, but in general they are both clearly harmful to the interests of the community as a whole and should therefore be forsworn. This is a negative conclusion. It rules out the policies of drastic restriction, whether of imported supplies or of domestic production. Restriction and artificial enhancement of price are economically bad in themselves, and in any case the electorate will not for long tolerate them.

It is only fair to point out that the measures recently adopted have not yet, on the average, restricted imports below, or raised food prices above, the levels prevailing before the depression of the last few years. Nor have the organized Marketing Schemes started under the Agricultural Marketing Acts in fact resulted in any restriction of home production. Indeed, in the case of milk the effect of remunerative prices has been to encourage an increase in production of between 15 and 20 per cent during the first year of the scheme. The danger is that, when external agricultural conditions and prices become more normal, measures which have hitherto operated to arrest a fall of prices, which would have been disastrous to the farmer, will serve to cause a serious rise, which will involve hardship to the

consumer and impair the competitive position of the exporting industries.

If drastic import restriction and price raising are ruled out, what positive measures remain? An important distinction should here be drawn between measures designed to maintain and expand the production of commodities, such as wheat and sugar, for which Britain is not specially fitted, and assistance given for the purpose of encouraging those forms of production for which we are specially fitted, particularly milk, eggs, fruit, and vegetables. Hitherto the emphasis has been too much on the former and too little on the latter. The former purpose is essentially one of emergency relief, justifiable, if at all, on social rather than on purely economic grounds; the latter is to be regarded as part of a constructive programme for increasing the national income and making a fuller economic use of our natural resources. The urban community needs a plentiful and cheap supply of imported wheat and sugar; but when that need is met it also provides an unrivalled potential market for the accessory food-stuffs which play so important a part in promoting national health.

There are four main methods by which the prosperity of the agricultural industry may be increased. It is beyond the scope of a brief chapter to work these out in any detail, and we cannot attempt more than a brief summary of each.

(a) *Increased Demand*.—The first and by far the most important means of revival is to stimulate an increase in the aggregate demand for foodstuffs. The success of the policies recommended in this book should of itself be reflected in an increase in the standard of living of the urban population through the reduction

of unemployment and the revival of the export industries. At present the poorest households consume all too little of the produce of British farms. Many thousands of families are compelled to economize on the purchase of fresh milk for children; the consumption of home-produced eggs and fresh vegetables except in negligible quantities is often beyond their means; and the fruits they mostly buy are dried fruits, oranges, and bananas imported from abroad. As their standard of living rises, so the consumption of home-grown food will increase. During the last fifty years economic forces have been working against the British farmer. In the production of the staple foodstuffs he has been slowly displaced by competition from abroad. But during the next few decades the demand of the consuming public will increasingly turn towards those secondary foodstuffs in the production of which the British farmer has the greatest differential advantage.

Moreover, it is only reasonable to assume that one of the accompaniments, if not results, of a policy of stimulating industrial recovery through the resumption of foreign investment will be some diminution in the severe price competition from oversea countries to which British producers have been exposed in recent years. It is hardly to be expected that our oversea suppliers will continue indefinitely to exchange food for manufactured goods on terms so markedly unfavourable to themselves as they have been compelled to do in recent years. A resumption of foreign lending by Great Britain and a revival of internal prosperity in those countries will tend to increase their local consumption and to lessen the pressure to export at unremunerative prices. Even if imports of foodstuffs are not reduced in volume, their value in terms of

manufactured goods is likely to increase. Indeed, the same process of recovery that leads to a reduction of unemployment in this country will also tend to correct the disparity that now exists between the prices of agricultural and industrial products.

But apart from the improvement in demand and recovery in prices which may be expected to accompany industrial revival, we attach special importance to more direct measures designed to increase the consumption of the so-called "protective foodstuffs" on grounds of public health.

In a later chapter dealing with the need for a national food policy, we stress the importance of adequate supplies of milk, eggs, fruit, and vegetables to the health of expectant and nursing mothers, infants, and growing children. It is evident, both from the total figures of national consumption and from recent dietary surveys, that the consumption of these foods among the poorest families is deplorably low and falls far short of the minimum required for optimum nutrition. If our proposals for an extension of the present provision of cheap milk at Welfare Clinics and in the schools were to be adopted, a considerable expansion of the dairy industry would be required; and if to this were added a systematic provision of supplementary—not necessarily free—meals for school-children, the demand for home-grown eggs, fruit, and vegetables would be greatly increased. It is difficult to imagine a stronger case for a State subsidy than one which both assists agriculture and at the same time improves the health of the rising generation. Part of the subsidy now going to wheat and sugar beet, which we have criticized on the ground that these foodstuffs are not specially suited for home production, should be diverted to the

far more important object of expanding the production and consumption of milk, eggs, fruit, and fresh vegetables for the production of which British agriculture is far more favourably situated.

(b) *Reform of Distribution*.—The second method of improving the lot of the farmer is by increasing the efficiency, and diminishing the cost, of the system of distributing food. There is strong *prima facie* evidence for the view that too small a share of the price paid by the ultimate consumer reaches the pocket of the farmer. The margin between farm prices and shop prices appears to be increasing rather than diminishing, and it is particularly noticeable that firms of middlemen and retail distributors have been increasing their profits and dividends during precisely the period in which almost all those whose produce they have been selling have been losing heavily.

This is properly the function of Marketing Boards elected by the producers, but it is disappointing that some existing Marketing Boards have dealt tenderly and even, in some cases, with excessive generosity, with the distributive mechanism, and have lent themselves too readily to the maintenance of excessive margins. But Marketing Boards cannot by themselves solve the problem. We believe that, on grounds both of efficiency and of public health, the food-distributing industry should be placed very high on the list of industries marked out for the extension of the public utility principle, even if not for public management or ownership.

(c) *Increased Efficiency*.—The third method by which agriculture can be assisted is by helping it to increase its productive efficiency. This can be done partly by the vigorous encouragement of research and

education, both now handicapped by the lack of funds. But perhaps the largest sphere for assistance by the State to improve the efficiency of agriculture is in assisting the industry to obtain the capital it needs. The land at present is starved of capital. Some progress has been made towards the provision of circulating capital for the farmer, but very little attention has been paid to the increase of the actual fixed capital invested in the land and in farm buildings. The heavy incidence on landowners of the death duties is partly responsible for this. Land is frequently valued for probate at a figure at which it could not possibly be sold, if indeed it could be sold at all. The landowner is consequently forced to denude his liquid resources in order to pay the duties and is subsequently unable to keep his property in condition. If it were open to landowners to surrender their land in payment of death duties at the assessed valuation, there would be a badly needed check upon the accuracy of the valuation as well as a gain to the financial resources employed in the industry. A clause was inserted in the Finance Act of 1909 giving the Treasury power to accept land in payment of death duties, but the Treasury has consistently refused to avail itself of the opportunity. Indeed, the acquisition of odd parcels of land scattered up and down the country is not an economic proposition unless it is integrated with a large-scale land policy of the kind we suggest below.

A reform in the method of collecting death duties would, however, at least alleviate the position in some cases in future; but there is an urgent need for more capital to-day. In industry, a supply of capital has been maintained, in spite of the decline of the private capitalist, by means of the joint-stock organization,

and it is not impossible that the same principle might be applied to landowning or even to farming itself. But the gap can only be adequately and immediately filled by mobilizing the credit resources of the State in combination with a more elastic technique than we think is provided by the present Agricultural Mortgage Corporation. There is a useful sphere of activity for official or semi-official agencies, enabled to raise capital on favourable terms and empowered to relend it for investment in the land in the form of loans for reclamation, reconditioning, draining, and improving land. We do not propose that the State should directly subsidize this work. But there is at present no agency from which funds for this purpose can be easily and cheaply raised. In the United States, agencies owned or sponsored by the Government have advanced more than £700 million to the agricultural industry. A great deal of good could be done in this country by bodies working on a very much smaller scale.

The truth is that the system of landlord and tenant is breaking down. It has never been sufficiently recognized that the fixed capital, so-called, of British farming (*i.e.* buildings, drains, fences, roads, etc.) is really a wasting asset, to replace which reserves should have been created. And so it is hardly an exaggeration to say that the majority of farms have an equipment which has fallen into disrepair or one which is obsolete in the changing circumstances of modern agriculture. On most farms much-needed repairs and improvements have been postponed owing to the difficulty of financing them; it would be easy to find farms cumbered with buildings no longer needed, while lacking those essential for the efficient farming of the land to-day. The tenant farmers are only in part responsible for this

state of affairs. For a variety of reasons, the landlords have been unable to fulfil their economic function of supplying the capital needed.

Even with cheap credit readily available, even with the extension into the sphere of land-owning of the joint-stock principle, it is extremely doubtful whether this state of affairs could be remedied within the framework of private ownership of the land. If the average efficiency of cultivation is to increase, an extension of various forms of public ownership of land is urgently necessary. Already the County Councils are the largest landowners in some counties, and the Crown, the Church, the Universities, and other charitable trusts of all kinds control large estates. What is needed is the assumption by the State of the power to acquire land compulsorily, as well as the existing power to receive it in payment of death duties. Land should be acquired (1) when it is required for smallholdings or for the programme of land settlement outlined in the next section of this chapter; (2) when it is wanted for roads, public works, planned urban settlement, or in pursuit of the purposes of Town and Country Planning mentioned in Chapter III; and (3) when it is not being efficiently cultivated, either through defects in methods or through lack of capital. When land is compulsorily purchased, fair compensation should, of course, be paid. But in assessing the value of land no account must in future be taken of any increment in value arising directly out of public action or public expenditure. The large annual sum which the State is spending on agriculture must not be allowed to accrue solely to the landlords, while public works and town planning schemes must not be rendered expensive by the inflated claims for compensation. As a general rule, land should

be taken over at its existing valuation either for local rates or for Schedule A of the income tax. By a system of this sort, which would, of course, be operated through local committees conversant with the circumstances of each district, a considerable and rapid extension of public ownership of the land would be secured. Capital for much-needed development would become available, while profits accruing to the land from State action or from community demand would pass to the State instead of to the private owner.

(d) *Financial Assistance by the State.*—The fourth method of approach is by direct financial assistance by the State. It is sometimes assumed that direct cash subsidy is the only form of assistance which imposes any burden on the State, while levies, tariffs, quotas, and remissions of taxation are less “expensive”. This is, of course, a complete misconception. A subsidy appears in the Budget and is consequently more prominently in the public eye, but any of the other devices which increase the income of the farmer do so at the expense of somebody, and it is only in the exceptional case that “the foreigner” can be made to pay the cost. Under direct financial assistance we therefore include not only subsidies, but any tariffs, quotas, or levies which raise prices, as well as differential remissions of taxation. It is frequently not realized how large is the financial assistance already given. The direct cost to the Budget in this respect was estimated two years ago at little short of £30 million, and to this must be added the subsidies granted since that date as well as the cost (in enhanced prices) of import restrictions. The total cost must by now be well over £40 million per annum.

This is a very large sum indeed to be given in

subvention of an industry which directly employs only about 1,150,000 persons, and we shall probably be safe in making the preliminary assumption that the nation will not be willing to increase it. On the other hand, there is no very outspoken demand for a reduction. We can take it that the non-economic advantages of having a community rather more balanced between urban and rural pursuits, and rather less insecure in time of war than pure economics would dictate, are generally considered to justify a cost of something like the amounts now given in subsidies or other forms of assistance. The problem then becomes a double one: how shall this money be raised and how shall it be spent?

The first half is fairly easily answered. Money raised for the purpose of subsidizing agriculture should, in general, be raised in the same way as other money required for purposes of State. Exceptional cases may need exceptional methods, but there is a strong general presumption against raising money as a matter of permanent policy in normal times by means of indirect taxes upon food, and a strong presumption in favour of raising it by means of progressive taxes adjusted to the capacity to pay. But the problem is one of taxation rather than of agricultural policy.

The second half of the problem, that of deciding how the assistance is to be given, introduces more complex considerations. If money is not to be wasted and the purposes of policy frustrated, it is essential to regard the whole agricultural industry, if not as a unit, at least as a collection of very closely connected sections. It is not possible in the long run to encourage one branch of agriculture without affecting the conditions of other branches, and agricultural policy, though it

must be largely administered in sections, must be very carefully co-ordinated as a whole. The utmost care should be taken to make the best use of the money by selecting the forms of agriculture to assist. Two questions, in particular, should always be asked: Will expansion of this item give considerable extra employment? and, Will the expansion of home production give a real benefit to the consumer in quality? Some forms of expansion (*e.g.* wheat), though they are technically of value to the farmer by enabling him to retain the orthodox agricultural cycle, give little or no extra employment, as they lead to mechanization; others give employment that is unsatisfactory because casual, as in the case of sugar beet; while neither domestic wheat nor domestic sugar offers any advantage in quality, since neither deteriorates in quality by storage or transport. Other forms of expansion, however, are capable of giving relatively more employment and offer a definite advantage to the consumer in quality, since they are concerned with commodities which deteriorate in time and are therefore better if produced near their market (*e.g.* fruit, vegetables, milk, and eggs). Moreover, as we have pointed out, it is this second category of products which supply the protective foods and high-class proteins so badly needed for improving the nation's dietary. It is on this category of products, therefore, that State assistance should be concentrated. We should attempt to save money on wheat and sugar and devote it to this group of fresh foods instead.

There are four main methods by which State assistance can be given—quotas, tariffs, levies, and direct subsidies—and we have to consider their comparative merits. In our view we cannot select any one of these

as clearly preferable to the others in all circumstances and for all cases. We must distinguish in particular between cases in which emergency or temporary assistance is needed because of abnormal conditions from those in which permanent support is considered to be justified. It is with this distinction in mind that we comment on the four methods of assistance which we have just enumerated.

Of these, *quotas* are the most effective method of preventing such a sudden increase of imports, caused by depression in the producing countries, as would be likely to break the domestic market and ruin the domestic producer. They may therefore properly be applied in an emergency to prevent a rapid *increase* of imports, as distinct from securing a *reduction* of imports. But the defects of quotas as a means of regulating foreign trade, which were mentioned in the last chapter, are so great that they should be used only in the gravest emergencies, when there is no other means of preserving the home farmer from ruin. Except as part of a socialized system, and in conjunction with public Import Purchasing Boards, quotas as an instrument of permanent policy are indefensible. From the importing country's point of view they distribute that part of the extra price paid by the consumer which, under a tariff, would go to the Treasury, either to the foreign producer or (much more probably) merely to the importing merchant. They irritate the consumer by imposing an absolute limit on the importation of commodities which may differ by subtle shades of quality from the domestic product. They are the potential source of endless diplomatic complications owing to actual or alleged "favouritism" in fixing quotas. From the exporting country's point of

view, a frequently altered quota makes it quite impossible to form the long-range plans which are essential in an industry like agriculture, while a sudden reduction of the quota gives the producer no method whatever of disposing of the produce left on his hands. We cannot afford entirely to ignore the feelings of the countries from which we buy our foodstuffs, as all of them are valuable markets for British exports, and many of them are our partners in the British Commonwealth of Nations. In the exceptional cases where quotas are imposed it should, therefore, be the endeavour to work them in co-operation with the exporting countries.

Tariffs are not open to the same objections as quotas. If the whole of British industry is to be protected by a moderate tariff, the farmer has a strong claim to equal treatment. Moreover, tariffs can legitimately be used to remedy any positive handicap from which the domestic farmer is suffering—*e.g.* to offset any export bounties given by the producing countries. In any case, we may remark, the home producer is entitled to at least equal conditions in his own home market; and the anomaly under which the British egg producer has to mark “chilled” eggs as such, while the Dominion or foreign producer is exempted from this provision, should obviously be removed. Tariffs suffer from the overriding disadvantage that they impose a tax upon food. They too can hardly be considered as the main vehicle of permanent assistance to agriculture.

There may, however, be exceptional circumstances in which the use of tariffs would be justified. For example, at times of emergency, when it is essential to prevent domestic farm prices from falling to bankrupt levels, tariffs would (except to restrict a *sudden* increase

of imports) be preferable to quotas for the reasons given in the preceding paragraph. But the justification is still one of emergency, and it cannot be used to support a permanent policy.

The *levy* is a compound of the tariff and the subsidy. So far as the raising of the revenue is concerned, it has little to distinguish it from the tariff. But the proceeds of the levy are not paid to the Exchequer; they are used directly to assist the domestic producers of the commodity in question. In the case of the wheat levy, the money raised is used to guarantee a fixed price for a given quantity of domestic wheat. Similar levies have been suggested for meat and other foodstuffs, but it does not follow that the money raised would be distributed in a similar way. In some cases a levy may have advantages over a tariff: it may, for instance, be possible to finance the necessary assistance to home farmers by a levy at a lower rate than would be necessary in the case of a tariff. But the levy has the grave disadvantage that, if it is administered on the lines of the wheat levy, it does not enter into the Budget accounts and is consequently less directly under the review of Parliament. Apart from special cases it is best regarded as tariff-cum-subsidy, its method of raising funds being subject to the same criticism as the tariff, its method of expending funds being that of the subsidy.

These three methods are, then, justifiable in exceptional circumstances, when the domestic farmer is threatened with ruin. When they are used, it should be with the object of preserving home production of food at a normal level by preventing the fall of food prices during a depression from outpacing the fall of prices in general. They should not be used to increase

production, or raise prices, above what free market conditions would determine in normal periods. There is all the difference in the world between a quota, tariff, or levy which helps the farmer by preventing a disastrous and abnormal fall of prices and maintaining the existing volume of production, and one which helps him by raising prices to the consumer above their previous or their normal levels and makes possible a positive increase in domestic production.

Where permanent policy is concerned, and it is desired to expand the production of any commodity beyond what could be secured without assistance or protection, we consider the right method is that of the open *subsidy*. This method has the advantage that its expense can be laid, by the general tax system of the country, on the shoulders most able to bear it, while it is also subject to constant review by the elected representatives of the taxpayer, and its expense to the community, unlike that of tariffs or quotas, is unlikely to be underestimated. We believe that the best method of assisting agriculture—apart from minor tariffs such as have been mentioned—is to pay cash subsidies out of the general revenue of the Exchequer. The best method of paying the subsidies would probably prove to be the guarantee of a fixed price for a certain maximum quantity of the subsidized product. This is the method of the Wheat Act, which guarantees a price of ten shillings a hundredweight on a domestic production not exceeding 27,000,000 hundredweight per annum. Wheat is not, in our opinion, a suitable crop for differential encouragement, but the technique of the payment of subsidy under the Act has proved itself and might well be adopted for other products.

If the various suggestions made in this section were

followed, we believe that agriculture could be made a prosperous industry without imposing any greater cost on the community than it is at present bearing. It goes without saying that in return for this assistance agriculture must be willing to submit itself to any necessary measures of control for the purpose of increasing its efficiency and of standardizing or improving the quality of the food it produces. It also goes without saying that the farmer must be protected from losing all his gains in enhanced rents, while on the other hand the machinery of the Agricultural Wages Act must be used to ensure that a fair share in the gain is passed on to the agricultural labourer.

LAND SETTLEMENT

The subject of land settlement is distinct from, though connected with, that of agriculture in general. Great Britain has a smaller proportion of its population on the land than any other country of similar size in the world. The confinement of so many millions of our citizens in towns where light and air and space are denied them is bad from almost every point of view—hygienic, moral, social, and even economic; for the living conditions of our urban population must impair its productive efficiency. There is urgent need for a policy that will bring the population once more into touch with green fields. An exodus from the towns does not, however, necessarily connote an increase in the number of people engaged in tilling the soil. “Back to the countryside” is not the same thing as “Back to the land”. What is chiefly needed, in order that the bulk of the population may be in touch with nature, is, as we suggest elsewhere, that industry should be so

located, and transport so organized, that the industrial worker can live in, or with easy access to, the country, and not that he should change his occupation.

Nevertheless, there is every reason to believe that there are many thousands of men who would be both happier and also more useful to the community if they were settled on the land. At a time of large-scale unemployment this argument is naturally reinforced. All these considerations in combination make a strong case for a policy of encouraging land settlement.

It would be less than frank, however, not to point out the difficulties in the way of a large-scale policy of land settlement. In the first place, the purchase and equipment of a small farm is an expensive business; the minimum cost for a one-family holding is about £500, and most small-holdings cost considerably more. The cost is, of course, increased in the case of urban unemployed who have to be trained before they can be put on the land. Secondly, the trend of agricultural development is making the small-holding less and less of an economic proposition in the face of the large holding employing modern methods. It must be recognized that the urban worker transplanted to the land will not be able, by working for eight hours a day and with the intensity of effort to which he is accustomed, to earn a living as large as that which he has made in industry. There is, unfortunately, only too good reason for believing that the standard of living of the average small-holder and his family is well below the urban level. Thirdly, before a large-scale migration from the towns to the land is undertaken, it should be recognized that the relatively isolated life of a countryman is very different in its amenities from that of the town-dweller.

These considerations are by no means conclusive, but they counsel caution and moderation in applying a policy of land settlement. A land settlement policy must, of necessity, be slow and gradual in its operation, and it cannot be expected that it will be able to make a very large contribution to the immediate problem of unemployment.

There are three main lines on which the policy could develop. In the first place, it should be made easy for agricultural labourers to acquire their own holdings, either small cottage-allotments for cultivation in their spare time, or small farms which would make them independent. This is the real function of small-holdings. Men of this type are accustomed to the life and trained for the work, and an energetic farm labourer should be able to produce more, and hence earn a better living, as his own master than as a hired hand. The rôle of the State should be to assist in acquiring and stocking the land, and in erecting the buildings, to lend the necessary working capital, and to exercise a general oversight.

Secondly, there is scope for the extension of what may be called "factory farms". These are productive units engaged in the intensive pursuit of one branch of agriculture: poultry-keeping and pig-keeping are the most suitable for the purpose. The work is centralized and under the control of a skilled manager, and the individual workers are more in the position of wage-earning employees than independent farmers, though they should in the normal course of events have a share in the profits of the undertaking. This form of land settlement has considerable advantages so far as the urban unemployed are concerned. They would not need more than a minimum of training; they could

concentrate on the more profitable sections of the live-stock industry, with the assistance of all the devices of the mechanical revolution that is going on in agriculture; and they could live with their families in small, compact communities. But the scope for this sort of development is comparatively small; in the case of poultry-farming, for example, it is unlikely that work could be found for more than a few thousand men. Within its limits, however, it is a promising development. The State could do something to assist the foundation of co-operative settlements of this nature by assisting in the provision of land and capital and by selecting and training the skilled manager-foreman who would be essential to the success of the project.

Lastly, there is a case to be made out for "subsistence homesteads" for the unemployed of the distressed areas. Many of these men will never work again in industry, and there is everything to be said for giving them work on the land to supply their own requirements. It must be clearly recognized, however, that to place men of this sort on the land with nothing more than a brief training and the provision, at a low rate of interest, of a well-stocked holding, would be only to court failure. Here and there a man would succeed, but the majority of them could not possibly make a paying proposition of land settlement in this way. Land settlement for the unemployed of the distressed areas must, in the nature of the case, be subsidized land settlement. This introduces a new element into the problem, for it would be unfair to existing producers to make them face subsidized competition from the new settlements. Broadly speaking, then, these colonies should grow food for their own consumption only; they should not attempt to sell their produce.

The State should pay a subsidy, roughly equivalent in amount to the unemployment assistance that these men are already receiving, and the subsidy could be spent on such requirements (*e.g.* clothes and coal) as could not be grown by the colony. The State should also provide, and pay, a leader in every colony who would watch over the social welfare and economic efficiency of the settlers. We believe that subsistence colonies of this sort should be rapidly established on a large scale in each of the distressed areas of the country.

CHAPTER VIII

SOCIAL JUSTICE

HITHERTO in this book we have been concerned with the efficiency of the economic mechanism. We have given passing glances at the problem of social equality and have framed our proposals (*e.g.* for distributing the burden of subsidizing British agriculture) with the need for fairness in view. But our main concern has been with suggesting ways in which public policy could assist the economic system to function more smoothly and efficiently. We must now turn to the second great aim which we set ourselves at the outset—namely, to consider what can be done in the immediate future to lessen the grosser inequalities of economic rewards which constitute one of the outstanding characteristics of the present system.

The social conscience revolts against the fact that there are men so poor while there are others so rich, some living in the extreme of luxury and others in the depths of destitution. The present disparities in wealth, moreover, if not greater than in the past, are more visible, and are sometimes accompanied by forms of ostentation which not only increase social bitterness but create false values. It is essential, for these reasons, to lessen the distance between the extremes of wealth and of educational, and other, opportunity. But there is a more urgent reason than moral indignation for

impatience with the inequalities of wealth and opportunity which we see around us. The system of government which we know as democracy, and which it is the primary object of those responsible for this book to preserve, is founded upon the equality of men in certain vital respects, in legal status and as units in the political system. But such great disparities of wealth as now exist tend to destroy the reality of this basic legal and political equality without which democracy is a sham. Money, as now distributed and concentrated, corrupts in the political as in every other sphere, and the history of democracies is one long struggle to escape from the clutch of plutocracy. Moreover, in these days of universal suffrage, a democratic system is compelled to work for a greater measure of economic equality by the most powerful of all sanctions, the knowledge that the ultimate masters, the electorate, will not tolerate it unless it does make some effort to diminish the inequalities of privilege. Complete equality of wealth is to some a dream, to others a nightmare; in any case it is hardly in question in any foreseeable future. But anyone who sincerely desires the survival of democratic government and civil liberty must admit the need to attack most vigorously the grosser inequalities which still divide our democracy into what a Conservative Prime Minister was the first to call "The Two Nations".

The task of diminishing inequality must, of course, be pursued with a keen regard for the efficiency of the economic mechanism. There would be little purpose in achieving an equality of wealth if it meant impoverishment for all. But the desirability of maintaining at a maximum the productive power of the community must not be used as an excuse for postponing in-

definitely any advance towards equality. It must always be remembered that equity is itself a major objective of equal standing with productive efficiency.

There are innumerable ways of advancing the cause of equity, and it is not our intention in the present chapter to give a comprehensive list, but only to offer a few suggestions for action in the immediate future.

Organization of Labour.—One way to reduce the inequality of incomes is to tackle the problem at the source of all incomes—in industry. This is the method followed by the Trade Union movement. The main principles of that movement are now very widely accepted. It is taken for granted in this country that the wage-earners should organize themselves for collective bargaining in Trade Unions. The standard wage is a recognized principle of British industry, and it is a growing practice for employers and employed to thrash out their differences in consultation with each other. The last eight years have been as free of industrial strife and as fruitful of advance in labour standards as any similar period for a long time past. In many industries the machinery of consultation has been made permanent in the form of a Joint Industrial Council, and in many individual enterprises there are regular meetings of a Works Council. Both these are devices of economic democracy which are admirable in their purposes and promising in their results. The gradual completion of this structure of collective bargaining ensures that a healthy pressure is kept upon the employers to pay the highest wages for the shortest hours which industry can afford.

On this part of the subject we say nothing, not because we underrate its importance in any way, but

because we have nothing new to say. The development of collective bargaining is in safe hands on both sides of the table, and we venture to think that there is no country in the world where the Trade Union movement is more securely established or more generally accepted as a valuable, and indeed indispensable, element than in Great Britain. The proposals we make in Chapter IV will have the natural effect of further consolidating the position of labour as an equal partner in industry. In less effectively organised trades the excellent work of the Trade Boards should be continued and still further extended.

Hours of Work.—The chief controversy relating to the conditions of labour which is before public opinion at present is the proposal to limit and reduce the hours of work. This is a complicated and difficult problem for which there is no clear-cut, comprehensive solution. It can only be dealt with by splitting it up into its parts.

The reductions of hours immediately after the war made the 48-hour week standard in British industry. But the international convention drawn up at the Washington Conference of the International Labour Office as long ago as 1920 has not yet been ratified. Moreover, there are one or two industries and callings in this country where the customary hours of labour are still in excess of 48 per week. In this division of the problem, the course of policy is obvious. There is general agreement among all sections of opinion that the working-week should not as a rule exceed 48 hours and that this maximum should be observed even if it involves some economic loss to the community. Accordingly, where the remedy lies in our own hands—that is, in the case of those British industries which

are not at present conforming—the necessary steps should be taken to bring them into line. In the international sphere, the British Government should actively explore the possibility of pushing to a successful conclusion the negotiations for ratification of the Washington Convention. The change of sentiment in many of the important industrial countries during the last few years may have made ratification less difficult to secure than on previous occasions when the attempt has been made.

It is when the suggestion is made that hours should be reduced below the standard now prevailing that difficulties are encountered. Reduction of hours does not necessarily mean a shortening of the working-day. It may, for example, be brought about by abandoning Saturday morning work or by granting annual holidays with pay. Indeed it is probable that in many trades, especially in manufacturing industry, these changes could be brought about with very little dislocation or loss of productive efficiency. One or two recent experiences have shown that the abandonment of Saturday morning work so improves the efficiency of the workers that, after a brief period of adjustment, as much is produced in five days as was previously produced in five and a half. It is probable that annual holidays would have a similar beneficial effect. Where an industry is in this position, it is clearly important that it should be encouraged to shorten its hours of work as soon as possible. Nobody will lose by the change, while the employees will have a valuable gain in leisure.

Throughout the bulk of industry, however, a reduction in hours worked would involve a reduction in goods produced or services rendered. That means that it would involve some economic cost, and the question

arises—whose shoulders should be made to bear that cost. Taking a long view, as the productivity of the economic system increases and the National Income rises, it is reasonable to hope and to expect that the average hours of work will be cut down. If this happens, the community will be bearing the cost by having a less rapidly increasing income of material goods than it would have had if it had not chosen to take part of its rising standard of living in the form of leisure. But in the short period with which we are faced, the problem is not so easy of solution. The cost of reducing hours of work must be met either by reducing weekly wages or by raising the prices of finished goods. Nobody will want to lower wages, and that solution can be ruled out. But the alternative is hardly more acceptable. One of the most striking phenomena of depression is that the prices of finished goods are too high in relation to the prices of foodstuffs and raw materials, and anything which still further increases the existing disparity can hardly fail to be economically damaging. Moreover, in so far as a reduction of hours was not undertaken in concert with other countries, a differential increase in the costs of British industry would add one more handicap to those from which our export industries are already suffering severely.

The sphere for reduction in the hours of work is thus, though large, not unlimited. Broadly speaking, the object of sound policy in the immediate future should be to reduce hours wherever there is a reasonable prospect that the reduction would not make it necessary either to lower wage-rates or to raise prices. This obviously entails an examination of the problem industry by industry in the way which is being undertaken at present by the Ministry of Labour in

conjunction with the trade unions and the employers' organizations.

Apart from intervention to regulate the conditions of labour, there are two main ways in which the State can attempt to reduce the inequalities of wealth. The first method is to develop the Social Services, and to do so in such ways as to provide for every citizen at least a minimum of the necessities of a full life. By thus providing for the poorest, the Services also supply a valuable support for the general standard of wages and the conditions of labour.

The second method of State action relates to the use that can be made of the State's power to levy the taxation required for its social expenditure in such a way as at the same time to lessen the inequalities of wealth.

THE SOCIAL SERVICES

The policy of a National Minimum is not a new one. In a rudimentary form it has existed for more than three centuries in the shape of the Poor Law, which with all its cruelties and humiliations was an attempt to see that no one in this country should starve. But for more than two centuries the Poor Law represented the beginning and the end of the duties that the State conceived itself to have towards its less fortunate citizens; it was not until well within living memory that the second great step, the establishment of universal compulsory and free primary education, was undertaken. And the third step, State-provided old age pensions, was taken in an Act of Parliament carried through by the statesman who is still Father of the House of Commons.

Within the present century the development of the Social Services, designed to set a lower limit below

which poverty and destitution shall not go, has been rapid and extensive. There is a system of unemployment insurance, of unemployment assistance for those who have exhausted their right to insurance, and a system of provision for the elderly or invalid poor; there is a national health insurance scheme and a variety of other health services; there are free old age pensions at 70 and contributory pensions between 65 and 70, besides pensions for the widows and orphans of insured workers; there is an education system which provides for every child up to the age of 14 and for many beyond; and there are subsidies in aid of working-class housing. It is a long and imposing list, and the total expenditure on the Social Services has risen in twenty-five years from £63 millions to £443 millions. The total cost of these services in 1931-32 to the national finances and to local rates was over £260 millions, and the National Health Insurance scheme, which is the widest spread, embraces nearly nineteen million people. We believe that Britain has every right to be proud of her Social Services.

Nevertheless, we believe that there is room both for improvement and for advance. We cannot deal with all of these services, nor exhaustively with any one. With respect to housing we have already made some proposals. We pass over the subject of health insurance also, although there are several extensions of the scheme which are badly needed. One of these—the provision of allowances for the dependants of sick or disabled workers—would not cost more than about £2½ millions, of which on the present basis only about one-fifth to one-seventh would fall on the Exchequer. It is something of an anomaly that allowances are granted to the dependants of the unemployed but not

to those of the sick, and the difference might well be removed at once. Another extension—the provision of medical benefits for the dependants of the insured workers—would be more costly and consequently needs rather more consideration. But it should clearly be high on the list of advances to be made in the next few years. Thirdly, the scope of National Health Insurance might well be extended to the “black-coated” worker above the present exemption limit. It would indeed be of great value both to the health of the nation and to the medical profession if the principles as to provision of medical services which are already embodied in the Insurance Act were extended so as to apply to other sections of the community.

We select for mention four Social Services in which we think it is both desirable and practicable to make an immediate advance. But though these Social Services must necessarily be examined one by one, it would be a mistake to consider them as being in separate compartments. Each, in fact, reacts on the others. Educational progress is of great social value in itself; old-age pensions relieve the misery of unsupported old age; but both have a further effect in helping to diminish the pressure on the labour market. Anything which improves the nutrition of the poor will diminish the calls on health insurance. Every social service has an influence on the others. In some cases there is a direct financial connection: thus, expenditure on raising the school-leaving age would diminish the expenditure on unemployment.

Our Social Services have been separately enacted, and they are separately administered, often by different Departments of State. The proposal has sometimes been made that they should be amalgamated into a

single scheme under a single administration. Whether this somewhat ambitious proposal is practicable or not, we think there is a strong case for much more co-ordination, both of finance and of administration, between the different Social Services than exists at present.

The many sources of financial assistance now available to the average working-class household are extremely complicated. Unemployment, sickness, old age, accident, death—all of these may give a right to the receipt of payments, but they may all come from different sources. The position of workmen's compensation is particularly unsatisfactory, both from the point of view of the workman and from that of industry. From the workman's point of view, he or his Trade Union are frequently obliged to take expensive proceedings in Court, the result of which cannot be foreseen, and he can only recover compensation if the accident took place within the scope of his employment. From the employer's point of view, the fact that the whole cost falls upon him is a serious addition to the cost of production, amounting in the case of the coal industry in 1932 to about 3·2d. per ton raised. It would therefore be beneficial to British industry if the cost of compensation were taken in part off the employer's costs of production and put on a contributory basis, but it would scarcely be possible to make this change unless the worker simultaneously were to benefit. This could be done by widening the scope of his insurance to cover accidents outside the scope of his employment. In this way it would be possible to bring into one single scheme disability due to accident and disability due to illness, which most curiously are now in completely separate systems of social assistance.

(1) *Unemployment.*—The first of the services which we have selected for brief mention is the relief of unemployment. No problem in the post-War years has proved more refractory to those of all parties who have tackled it. The Unemployment Act of 1934 made an attempt to codify and systematize, but the system it set up broke down almost immediately, leaving the confusion worse than ever. In these circumstances, it would be idle to pretend that anybody knows exactly what he would do about unemployment relief; all proposals are necessarily tentative and hesitant, and the following suggestions are not put forward in any dogmatic spirit.

The unemployment insurance scheme has for many years suffered from a threefold confusion. In the first place, there has been an attempt to combine an actuarially sound insurance scheme with pure relief. From the start, the insurance scheme was not pure insurance—that is to say, the State subsidized it, while benefits were paid not according to the contributions of the beneficiary but according to his family circumstances—but the great increase in unemployment in the years after 1929 completely shattered the actuarial basis of the scheme and left it with a substantial debt. In the Unemployment Act of last year, an attempt was made to rescue the insurance scheme from the mass of crisis-unemployment and put it once more upon a sound financial footing. This is obviously sensible policy. Indeed, it might be carried further, and there are many benefits to be derived from a further divorce of insurance from relief. It has frequently been suggested, for example, that workers earning higher wages might be allowed to pay higher contributions and receive higher benefits, or that the rate of contributions should vary

from industry to industry according to the risk of unemployment in each industry. There are obvious technical difficulties in the way of such developments, but they will in any case be entirely impossible so long as insurance benefit is confused with relief and so long as the scale of benefits is determined by considerations other than the value of the contributions paid in. To enable the insurance scheme to become more truly of an insurance character (which, incidentally, will open the way to higher rates of benefit) we suggest consideration of the possibility of the State taking over the responsibility of supporting the dependent families of *all* the unemployed, whether on insurance or relief. The Unemployment Insurance Fund is now used to give benefit, at rates which do not greatly vary from those of unemployment assistance, for the longest period consistent with the solvency of the Fund. This has the effect of postponing the stage at which insurance gives place to assistance and hence of diminishing the expense of the Unemployment Assistance Board, which falls entirely on the Treasury. We suggest that it would be more in keeping with the principles of genuine insurance, more in the interests of the unemployed themselves, and more likely to create a healthy differentiation between insurance and assistance, if insurance benefits were given at somewhat higher rates, even if only for a period slightly shorter than at present.

The second contradiction in the working of the scheme arises out of the conflict between the humanitarian desire to ensure an adequate standard of living for the unemployed and the necessity of safeguarding the public purse from claims upon it arising out of laziness or fraud. This conflict has given rise to the long dis-

putes over the "genuinely seeking work" clause and the Means Test. A complete separation between insurance and relief will be of assistance here, since so far as insurance is concerned the only safeguard needed is one against fraudulent claims. But in the sphere of relief the problem is very difficult. On the one hand, it is obviously in the general interest that men who have been out of employment for so long that their insurance benefit is exhausted should be under some pressure to find work outside the industries—and, indeed, in some cases outside the districts—to which they have been accustomed. It is also obviously prudent to make sure that public funds (to which the poor and the unemployed themselves contribute heavily) shall not be drawn by persons who are well able to support themselves. On the other hand, we must never forget that it is human beings, free and equal citizens, with whom we are dealing; and we must be careful to impose no humiliation or degradation of spirit upon them in addition to that which is inseparable from enforced idleness. This is obviously a case for compromise—a prescription easy to make though difficult to execute. In the case of the Means Test, we do not think it should be impossible to reach a satisfactory compromise. In its present form the Means Test is extremely unpopular and it undoubtedly works very harshly in many cases. In our opinion the attempt to regard all relatives living together as a unit for the purposes of the Means Test, and to make an unemployed man dependent on the earnings not only of his own children, but also of his brother or his son-in-law, should be abandoned. The enquiry concerning means should be restricted to the closest degrees of relationship, if, indeed, it is not confined to the appli-

cant himself and his wife (or husband, as the case may be).

We consider it essential that the system of which the Means Test has formed part should be purged of the harshnesses to which we have referred, and we believe that if the present system is to be retained at all, the amendments we have suggested are necessary.

The third confusion in the administration of unemployment relief is that between central and local control. Since the money is provided nationally, the last word must be with the central authorities; but since unemployment is an essentially human problem, there must be latitude for the adjustment of individual cases. The solution can only be found by allowing a large degree of discretion to increase payments to the local administrators of the scheme. The solution may lie along the lines of laying down scales of assistance, with such provision for local circumstances as can be made in advance, and then placing a further sum, proportional to the number of unemployed in the district, at the disposal of the local Public Assistance Committees, or such other non-official local bodies as may be set up, for use at their discretion in mitigating cases of individual hardship.

(2) *Old Age*.—This country was one of the pioneers in providing for old age, and the old age pensions scheme has already passed its silver jubilee. It is impossible to exaggerate what this scheme has meant to millions of old people unable to earn their own livings. Nevertheless, we think that there is still grave need for concerning ourselves with the problem of old age. The present rate of pension—ten shillings a week—is not enough for an old person to live on, and though the majority of old people probably have other resources

or outside help (*e.g.* from their children), there must be many thousands of cases where the old age pension is the only resource. To increase the standard rate of pension would be costly, since the cost to the State of the existing schemes is about £56 millions a year. But it should be possible within the next few years to arrange for an increase in the pension for those who are prepared to sign a declaration that they are entirely dependent upon it. We hesitate to suggest another Means Test, but if humanely administered it need not cause irritation, and the limitation of the expense in this way is probably the only way of bringing any increase in the Old Age Pension within the bounds of immediate practicability.

But the problem of old age does not begin and end with the old age pension. One of the most striking effects of the stationary or declining population which is to be our lot in the next few decades will be the increase in the absolute numbers, and still more in the proportion, of old people. In 1931, there were 3,210,000 persons over 65 years of age in Great Britain and they formed just over 7 per cent. of the total population of nearly 45 millions. By 1951, there will be (according to a reliable estimate) about 4,750,000 persons over 65 years old out of a total population of less than 43 millions—a proportion of over 11 per cent. By 1976 (though at such a distance in time the estimate is less accurate) there will be nearly $5\frac{3}{4}$ millions old people out of a population of less than 33 millions—a proportion of $17\frac{1}{2}$ per cent, or two and a half times the proportion of 1931. This is a natural consequence of the decline in the birth-rate as well as the death-rate. There were more births in the twenty years between 1894 and the outbreak of the war than in any other period of similar

length before or since. The people born in these years, who are now between 20 and 40, will always be the largest generation of their time; and when in about forty years' time they are also the oldest generation, there will be an enormous problem of unemployment and poverty among the elderly.

It would be impossible to imagine a clearer case for far-sighted planning. We know, as certainly as we know anything in the future, that there will be these enormous numbers of old people, and it is extremely unlikely that Society will transform itself sufficiently in the intervening four decades to enable them all to support themselves without difficulty. We should start, now while there is still time, to construct a nation-wide system of superannuation allowances. The system should be very largely contributory, but it can be undertaken on a large enough scale only by the State. Every worker should be enabled to contribute in proportion to his earnings in order to be able to draw a pension adjusted to the standard of living to which he has grown accustomed. If we wait much longer the rates of contribution will have to be stiff, to accumulate enough funds before the danger period. But if the scheme were set on foot immediately, a comparatively small deduction from present income would be sufficient. We recommend urgently that the matter should be given consideration and a scheme drawn up.

(3) *Education*.—In the sphere of education we cannot be satisfied with the progress of the post-war years. In every division of education—primary, secondary, higher and technical, as well as the intermediate grades—while there has been some substantial advance, practice is lagging behind the principles which were laid down and widely accepted many years ago. But

of all the possible forward steps, one stands out because of its social importance, its strategic position as an essential link in the whole programme of reconstruction, and its reaction upon the unemployment problem—the raising of the school-leaving age to 15.

More than eight years have elapsed since the Consultative Committee of the Board of Education urged in its now famous Report on the Education of the Adolescent that the age of compulsory education should be raised to 15. The educational case put forward by the Committee won general acceptance and was regarded as pointing the way to a new era in education. It proposed the division of elementary education at or about the age of 11 into primary and post-primary stages, and the reorganization of groups of schools so that in each group one central school might be established for post-primary teaching of a greatly diversified and enriched type, to which the elder children should be drafted for a four years' course appropriate to their varied aptitudes and capacities.

Ever since the acceptance of this Report by the Board of Education, local authorities have been urged to carry out the "Hadow" scheme of reorganization in their areas, and most of them have willingly and even enthusiastically responded. In London, for instance, Central Schools for senior children have been provided almost everywhere; and even in some of the large County areas, where the small size and scattered location of the rural schools form formidable obstacles to the reform, substantial progress has been made. The financial crisis of 1931 caused a temporary set-back, but in spite of this the process of reorganization has been painfully extended, and by March 31st, 1934, the latest date for which official figures are available, the

Board claimed that 53·2 per cent of the total number of pupils aged 11 and over were in reorganized schools.

But while it may be said that half the children over 11 are in reorganized schools, it cannot be claimed that they are all receiving the advantages of reorganized post-primary education as envisaged in the Hadow Report. As the transfer to a central school takes place at the end of the school year, many of the children are nearly 12 years old when they enter the senior or central school; and as they may leave at the end of the school term in which they attain the age of 14 years, post-primary education for them extends to not much over two and a half years, instead of the four years prescribed by the Hadow Committee.

Thus this particular year between 14 and 15 is of crucial importance. According to the Hadow scheme, all education after about the age of 11 should be classed as secondary, and all children should pass at about that age to some form of secondary education in schools varying widely in type but equal in status. This essential part of the Committee's proposals has not yet anywhere been implemented. It is this fact which accounts for the remarkable resolution recently carried almost unanimously by the County Councils' Association and communicated by its Chairman, Sir Percy Jackson, to the Prime Minister, in which the Association pointed out that the success of reorganization depended on the raising of the school-leaving age to 15 and urged the importance of a date being fixed for this reform.

Meanwhile, the urgency of the necessity for a decision by the Government has been emphasized by the rapidly worsening conditions in the juvenile employment market. The time factor is of the first importance, and

attention cannot be too often directed to the fact that there were nearly 300,000 more boys and girls born in 1920 than in 1919. This was the peak year, but 1921 had an additional surplus of nearly 200,000, and 1922 a surplus of 100,000. All these extra children, over and above the normal numbers, have had to be provided with school places and teachers. This has been done; and now the problem is passing on to the Juvenile Advisory Committees and Committees of Juvenile Employment. In many parts of the country these Committees are faced with a 50 per cent increase in the numbers seeking employment. After 1935, the numbers leaving school will begin to decline, but the aggregate volume of juvenile labour, which includes all boys and girls available for work between the ages of 14 and 18, will (as the Ministry of Labour pointed out in their Report in October last) continue to increase until 1937. And the mischief grows. On November 26th, 1934, 60,123 boys and girls were registered as unemployed, against 39,930 on March 19th, 1934; and of this 60,123, 44 per cent of the boys and 46 per cent of the girls were neither attending school nor had ever had a job of work since leaving school. Nor must it be forgotten that these figures are limited to those who register. In many cases the possibility of finding work is so remote that the child never goes near the Employment Exchange at all. These cases, mainly in the depressed areas, must be added to the 60,000. The official totals are still rising. On January 28th, 1935, the boys and girls under 16 registered as unemployed were 88,894; and even if we allow for the children who left school at the end of the December term and had not found work by January 28th, this indicates a rapid worsening of the situation.

On the other hand, the numbers in the schools are beginning to fall. Several Directors of Education, to whom an enquiry as to the probable cost in their areas of raising the school age was addressed by the School Age Council, replied that owing to the fall in numbers in their schools, the extra cost would be nil, and many more have stated that the cost would be less than that of the Junior Instruction Centres which are to be set up under the Unemployment Act of last year. These cases, of course, are in those areas where reorganization has happily been completed, or nearly completed, but it cannot be denied that in all the areas where unemployment is severe the retention in the schools of one year's recruits to industry would ease the situation.

We consider that, as the schools begin to empty and the Labour Exchanges to become crowded, the extension of school life, the educational case for which is universally admitted, should be utilized to redress the balance; and we maintain that this extension should be brought swiftly into action, to steady the flow into employment.

In any case, the introduction of the reform must take time. Delay in setting about it now not only adds to the difficulty by retarding reorganization, but also runs the risk of missing the social advantages of the reform.

This is the educational reform which is urgently needed at once. Its urgency justifies the concentration of attention upon it until it is achieved. But its achievement must not serve as the signal for another decade of delay in further reform. The goal to which we must attain within a very few years, for which we should be making immediate plans, is whole-time education until

16 and part-time education until 18 for every child. And even that must be merely a stepping-stone to further advances in the spheres of secondary, technical, and commercial education. Nor can we afford to waste any more time in completing the programmes for the rebuilding of "black-listed" schools and for the reduction in the size of classes.

There is no Social Service which better deserves the epithet of "nation-building" or which is more vital to the existence of a democratic country than a broad, extensive, and efficient educational system.

(4) *Nutrition*.—The need for a separate nutrition service is only just beginning to be appreciated. The advance in the science of nutrition during the past two or three decades has been very great indeed and our traditional habits of food are already being changed in accordance with scientific discoveries. The importance of a well-nourished people needs no emphasis from the social or from the economic point of view; in the phrase which has become familiar, "we cannot afford to have a C3 population". But the lesson which has been learned in recent years is that mere adequacy of food is not enough; many habitual over-eaters are nevertheless malnourished. The vital point is the quality and balance of the food that is consumed. Within the last few years a very great deal of research has been undertaken, by bodies of indisputable authority, into the problem of minimum standards of nutrition, and we are now in a position to say with reasonable exactitude how a diet for healthy living should be composed. Looked at with the eye of history, the task of the community is to ensure not merely that no section of the population falls below the minimum standard but that every family has the optimum

standard of nutrition. But we are confining ourselves in this book to what can be achieved in five or ten years, and the immediate task is to secure at least the minimum standard for the children and their mothers.

This in itself is a large enough task, so lamentably low are the standards of nutrition of our poor families. Take, for example, the case of milk. The present consumption of milk in this country is less than two-fifths of a pint per head per day—itself less than what is required on grounds of health. But this figure is an average of the rich and the poor, and in many thousands of poor families where there are several children the consumption is negligible—about two-fifths of a pint per head per *week*. If figures were available for the consumption of fresh vegetables and fruit, the disparity between actual consumption and the *minimum* standard would be even greater, for some attention has already been directed to increasing the consumption of milk.

A policy to remedy this state of affairs must have two sides; the poor must be both *persuaded* and also *enabled* to buy the right kind of food. Persuasion is a task for education and propaganda, and its beneficial effects need not of course be confined to the poorest classes. It should be organized as a national campaign with the force and authority of the Government behind it. But a campaign of propaganda would be an elaborate mockery in view of the present purchasing power of many millions of families who simply cannot afford to buy the food they ought to have.

We believe that it would be a mistake to regard this question as merely a part of the general question of poverty which must await for its solution a general rise in the standard of living. In the first place, its

urgency precludes such an approach. And in the second place, we doubt whether a mere increase in wages or in unemployment benefit would solve the problem. The State has already recognized the paramount importance of increasing the housing standards and of providing education for the poor. But it does not set about either task by increasing the general incomes of the classes it intends to benefit. It does not do so for two reasons: first, because an increase in wages would not be the most economical way of providing the houses and education needed; and secondly, because there is no reason to believe that the increase in income would in fact be spent upon houses and schools. Precisely the same considerations apply, in our opinion, to the case of nutrition. The line of approach is for the State itself to provide, or arrange for the provision of, cheap, good food for the children and for expectant and nursing mothers.

A small step has recently been taken along these lines by the Milk Act of last year, by which the Government undertakes to contribute part of the cost of providing half-price milk to school-children. But this scheme was not conceived as the beginning of a policy of nutrition. Its avowed major object was not the improvement of the health of the children but the stimulation of a demand for milk in order to assist the agricultural industry. Moreover, although the school-children are provided with cheap milk, the even greater claims of expectant and nursing mothers and of children below school age are not equally provided for. This sort of attitude is a poor substitute for a thorough-going policy. It is true that there is a close connection between raising the standards of nutrition of the people and increasing the prosperity of domestic agriculture.

But to consider the health of the people as a mere by-product of the farmer's profits would be unworthy of a great nation. The organization of agriculture will considerably facilitate the task of nutrition, but must not be allowed to dictate either its methods or its objects.

A National Food Policy should, then, be regarded as of importance equal to, if not greater than, education or housing. The Treasury is already paying £500,000 a year to the milk scheme. As a first step, we recommend that, say, £5 million a year should be provided to initiate the National Food Policy. There would be a large saving in expenditure on the treatment of sickness and disease and an increase in general well-being and efficiency, not to mention the ample dividends in happiness that come with better health.

TAXATION AND EQUITY

In any discussion of the equity of the economic system, notice must necessarily be taken of the effects of the fiscal policy of the State. The total sum collected each year in national taxes and local rates (omitting the self-balancing items of the Post Office and the Road Fund) is now over £800 millions, or nearly a quarter of the total National Income. The way in which this vast sum of money is raised and the way in which it is spent may clearly have a very large influence upon the distribution of wealth. If heavy taxes are laid upon the rich and the proceeds spent in providing for the needs of the poor, a considerable net transfer of income can be effected. Conversely, if the poor are compelled to bear a relatively heavier share of the necessary costs of government than the rich, the

existing maldistribution of incomes will be accentuated. Some people would impose heavy taxation on the rich for its own sake, and having raised the revenue would cast about for some way of distributing it to the poor. We do not believe that this is the correct approach. But in so far as money is urgently needed to establish the Minimum Standard for the poor, there is a very good case in equity for imposing the necessary taxation upon the wealthier classes of Society.

The search for a system of taxation which shall be completely fair to all classes of the population does not admit of any theoretically perfect solution, since it is impossible to measure a psychological factor like the degree of "sacrifice" involved to persons of different incomes in paying a given sum in taxes. But it can be taken for granted that, in a fair system of taxation, not only should the rich pay more than the poor, but they should also pay a larger proportion of their incomes. This principle is founded on the elementary assumption that the sacrifice involved in paying in taxes one-tenth of his income is far greater to the taxpayer whose total income is only £100 than to the taxpayer whose total income is £10,000. A fair tax system, in other words, must be a progressive one. Theoretical reasoning cannot tell us how steep the progression should be; but that there should be some degree of progression is not open to doubt.

Judged by this criterion, the British tax system is very far from satisfactory. Eight years ago, the Committee on National Debt and Taxation, under the chairmanship of Lord Colwyn, calculated the burden of taxation on persons of different incomes. The "standard taxpayer" was taken to be a married man with three children under the age of sixteen, who was

not a total abstainer from either alcohol or tobacco or public entertainment. In the financial year 1925-26 the proportion taken in taxes (including an allowance for eventual death duties where any income arises from capital) was as shown in the following table.

PROPORTION OF INCOME TAKEN IN TAXES, 1925-26

Income	Percentage of Total Income taken in Direct and Indirect Taxes	
	Income wholly earned	Income half earned, half Investment
£	%	%
100	11·9	13·0
150	11·6	12·7
200	10·2	11·3
500	6·2	8·4
1,000	11·0	14·4
2,000	15·2	19·3
5,000	23·2	29·5
10,000	31·2	40·1
20,000	37·5	48·7
50,000	44·4	57·7

Ten years ago, then, the taxation system was moderately progressive above the income-level of £500 per annum. Below that figure, however, it was most inequitable. The earned income of £100 per annum was paying a higher *proportion* than the earned income of £1000. This result was, of course, entirely due to the fact that a comparatively large part of the yield of customs and excise duties is raised from duties on articles of popular consumption. The consumption of beer and tobacco does not vary in the same proportion as income, and a much larger share of the poor man's income than of the rich man's accordingly goes in paying these duties.

But if the position was unsatisfactory in 1925, it is no better to-day. Since the report of the Colwyn Committee no official estimate has been made of the incidence of taxation. But the changes can be approximately estimated by observing the alterations of the yield of direct and indirect taxation. Not all indirect taxes are paid by the poor; stamp duties and some of such duties as the silk, wine, and spirit duties, for example, probably fall on the higher incomes; there is another large category of customs duties which affect both rich and poor but which allow of no graduation in favour of the poor. On the other hand, incomes above the low limit of £125 a year (for single persons) now pay income tax. Comparing the figures for 1934-35 with those for 1925-1926, the yield of direct taxes (income tax, surtax, death duties, etc.) has *diminished* by £26 million, or 7 per cent—not, indeed, because of any reductions in the *rate* of taxation¹ but because of a decline, owing to depression, in the incomes subject to taxation. In the same period the yield not only of indirect taxes in general but also of some of those duties which are paid in overwhelming proportion by the poor has *increased* substantially. Thus it is clear that if there have been any changes during the decade in the distribution of the burden of taxes, they have been changes in the direction of less, rather than more, equity.

Nor does a comparison of the yield of direct and indirect taxes tell the whole story. In the last few years, a large number of protective duties have been imposed. These duties have brought in a certain amount of revenue which has been included under the head of indirect taxes. But in so far as they have raised prices, they have further compulsorily transferred

¹ Surtax has in fact been increased by 10 per cent.

money from the pocket of the consumer to that of the domestic producer, though it may be that this has to some extent enabled wage standards to be maintained. The burden of these concealed indirect taxes cannot be estimated, but it must be very heavy. Another form of indirect tax is imposed by the Wheat Act of 1932, which makes a levy on all flour milled and hands over the whole proceeds to wheat farmers, no part of the extra price paid by the consumer thus appearing among the indirect sources of revenue in the national accounts. This wheat levy, though it does not enter into the Budget accounts, is clearly an indirect tax; and it will amount in 1934-1935 to some £6½ million. Moreover, even within the direct taxes there has been a certain shift of the proportional burden from the more to the less well-to-do. The standard rate of income tax was restored in the Budget of 1934 to the level at which it stood before the crisis of 1931. The allowances and exemptions, which are of much greater importance to the smaller incomes, remained at their crisis level until the Budget of 1935, and even after the concessions which were then made, the taxpayer of medium income is still bearing a larger share of the crisis burden than his richer colleague. Comparing the position after the Budget of 1935 with the position before the "Crisis Budget" of 1931, the income tax of a married man with three children with an earned income of £2000 has risen by 5 per cent, that of the similarly situated man with an income of £600 by 37 per cent, and that of the man with an income of £750 by no less than 78 per cent.

Finally, mention must be made of the very heavy burden of rates upon the poorer classes. Rates are a tax upon house-room of the most inequitable kind.

They take a larger proportion of the incomes of the poor than of the rich, of the large family than of the small. Moreover, they are heavier in precisely those districts where there is a greater proportion of poor people or where the breakdown of the local industries has brought a large section of the population to destitution. Since the Derating Act of 1929 the grosser inequalities have been removed, but there is still a range between 7s. 6d. in the £ in Blackpool and Oxford and 27s. 6d. in the £ in Merthyr Tydfil.

The inescapable conclusion to be drawn from these facts is that our present system of raising national and local revenue is gravely inequitable and has recently been growing more so. This state of affairs would be more tolerable if it could be shown that the poorer classes were receiving more from the Exchequer in Social Services than the increases in taxation imposed upon them during the past twenty years. But, contrary to the generally accepted view, a study of the national accounts over the past twenty years shows no such tendency. In 1913-14 the expenditure of the National Exchequer on education, health, housing, labour, unemployment, civil pensions, and insurance (including grants to local authorities for these purposes) was £38·4 million. In 1933-34 the expenditure on the same objects was £200·5 million, an increase of £162·1 million. In the same period, the yield of the Customs and Excise duties increased by £211·2 million. Not all of the Customs and Excise duties are, of course, paid by the poor, but the yield of the beer, tobacco, and sugar duties alone (which are paid overwhelmingly by the wage-earners) increased over the twenty years by about £120 million. When the wage-earners' contribution to other duties is included, it is clear that there has been

no net gain to the wage-earning class from the Budget changes of the last two decades, either on the revenue or on the expenditure side. Although it is impossible to allocate any particular item of revenue to any particular item of expenditure, it is roughly fair to regard the richer classes as providing about as much as the extra revenue required for the payment of interest on war loans, and the poorer classes as much as to pay for the extension of the social services.

An examination of the expenditure side of the national accounts thus provides no reason for disturbing our previous conclusion that the system of taxation is gravely inequitable. The moral for future policy is accordingly clear. In so far as the emergence of Budget surpluses in the next few years permits reductions in taxation, the reductions should be concentrated on those imposts (indirect taxes, especially on articles which are a part of the standard poor man's cost of living, local rates and the personal allowances of the income tax) which weigh more heavily on the poor. And there is a strong presumption against financing the policy of assisting agriculture by extra-Budgetary levies upon essential foodstuffs.

But measures of this sort will be only of negative satisfaction. We believe that in present circumstances, when destitution exists side by side with enormous wealth, it is right and proper that there should be *some* transfer of income between rich and poor. We do not advocate the confiscation of the wealth of the rich and its distribution to the poor. But we think it is a travesty of the whole policy of Social Services, designed to establish a National Minimum Standard of Living, if their whole cost is levied from the very people they are intended to assist. In the foregoing pages we

have suggested various extensions of the Social Services which will impose some extra burden on the Exchequer, though the extra cost will in any case be no more than the rise in the current year of the cost of the defence forces. The aim of these proposals would be entirely defeated if the cost were defrayed out of further taxes upon popular consumption.

For this and wider reasons it is advisable to indicate in what directions further revenue can be obtained if it should be required in the future. One obvious source has already been mentioned in Chapter III. This is the increment in land values which accrues to the owner, entirely unearned, through public policy in developing a district, building roads or railways or in other ways. We recommend that measures should be taken, whether by means of previous purchase or by taxation, to secure for the public revenue such increments of value as are due to public action.

The second possible source of increased revenue is a tax on "unearned" income—that is, on income from property as distinct from income from work. At present the only distinction between the two is that one-fifth of earned income up to £1500 is deducted in calculating the liability to income tax. This means that, with the present standard rate of tax, the maximum difference in income tax on an earned income and an unearned income of similar size is £67 : 10s., however large the income may be. In our opinion this is an insufficient discrimination, and one of the taxes that might be held in reserve for the future is an increase in the surtax rates on unearned income. This would, in effect, be an extra tax on individual incomes from dividends, interest or other property of more than £2000 per annum. We believe that the effect of such a tax on enterprise and

initiative would be so small as to be negligible. The tax would also be in accordance with the most orthodox principle of taxation. For it is evident that a taxpayer whose income is independent of his own age, health, and opportunities of earning, is in a much superior position to one whose income, of the same amount, is dependent on all these conditions.

The third possible source is an increase in the death duties. We are aware that the present rates of duty are high. But they are not wiping out the large estates. In the three years 1927-30 an average number of $16\frac{2}{3}$ estates of over £1,000,000 were transferred by death in each year, compared with an average number of 9 per year in the three years 1911-14—this in spite of the fact that in the intervening period about two-thirds of the wealth of the country had already been subjected to the heavy post-war rates of death duties. The value of £1,000,000 is, of course, less now than twenty years ago, but there is nothing in the figures to suggest that millionaires are being taxed out of existence. It is possible to apply another test. In 1913-14 there were 13,231 people with incomes of more than £5000; in 1929-30¹ there were 14,204 people with incomes of over £8000. The value in 1929-30 of an income of £8000 after deduction of tax was probably less than the value of an income of £5000 less tax before the war, but the maintenance of the number of such incomes—

¹ In making these comparisons, it is essential to compare so far as possible prosperous years with prosperous years, not depressed years with prosperous ones. The year 1929-30 has been selected here since it was the most prosperous of recent years. Its prosperity did not, however, compare favourably with that of 1913-14—a circumstance which strengthens the argument of this chapter. In 1933-34 there were 9051 persons with incomes of over £8000, but the year was one of such depression as to afford no standard of comparison with the pre-War period.

the majority of which come from property—suggests that the capital value of the property of the rich is being maintained. Or a third test: in 1913–14 the 4843 largest incomes assessed to surtax amounted to £109,876,000; in 1929–30 the 4844 largest incomes amounted to £157,873,000. This 44 per cent increase in the incomes of the very richest section of the population is rather smaller than the increase of about 75 per cent in the total National Income in the same period. But once again it shows no sign of any confiscation of capital.

We are consequently of the opinion that no objection on the score of equity could be raised against a further increase in the death duties. But it would be merely prudent to consider whether such an increase would have harmful effects upon enterprise or upon the supply of savings, or would substantially increase the danger of evasion of the tax. So far as savings are concerned, we believe the danger to be perceptibly less than it was formerly. In the first place, an ever larger proportion of the national savings is being accomplished by institutions such as life insurance companies, by public bodies, and by companies out of their undistributed earnings, and an ever smaller proportion remains to be found by wealthy individuals. Secondly, there is not now a need for so large a proportion of the national income to be devoted to savings as in the past. The large savings of the past were needed for a rapidly expanding British industry, and for the opportunities constantly offered of profitable investment in foreign countries desiring to develop their natural resources and their manufactures. Now, however, we have to take into account the fact that our population is ceasing to increase and that the opportunities for large-scale investment have

been restricted. Thus it is probable that our ideas about savings will henceforth have to be modified, and that a larger proportion of our national income will normally be devoted to current consumption.

The most reasonable objection to an increase of death duties arises, not from the way in which they operate in the majority of cases of great fortunes, but partly from their effect in a considerable number of special cases or categories, and partly from the fear that "capital" is being spent not as capital but as current revenue. We think, therefore, that an extension should be accompanied by special provision to meet these objections. The main hardships, or socially undesirable results, arise (*a*) in the case of family businesses or private companies based on shares which are not easily marketable, and (*b*) in the case of large landed estates, where the nominal value may be greatly in excess of any sum for which the owner can in fact sell his estate, and where the practical effect may be that the estate deteriorates through impoverishment. As regards (*a*), where the payment of death duties may, under present conditions, render the position of a business impossible, we recommend that provision should be made for payment by instalments, with the addition of a very low rate of interest, as a supplement to income tax and with some relation to the fluctuations of income from year to year. As regards (*b*), we recommend that large landed estates should be valued in sections and that the heir should have the option of surrendering a part of his property to the State, on the basis of these values, in lieu of cash. This would have the advantage of making the valuation more responsible, impartial and equitable, and less litigious. It would also mean, as we suggest in the chapter on Agriculture, that the State

would have the responsibilities, and the experience, of dealing with precisely those kinds of landed property which there is a strong presumption that the owner would be unable to manage satisfactorily on account of his financial embarrassment. We also recommend, as regards houses, etc., of real historic and national interest, an exemption from death duties under prescribed conditions, making them available either for certain purposes recognized to be of social value, or for visits from the public on prescribed days (like those classified as "ancient monuments" in France).

We are convinced that, with skilful provision for special categories of estates of this kind, a considerable increase of death duties would be possible without substantial hardship or undesirable social consequences.

As regards the other objection, we think that, for this as for other reasons, it would be highly desirable to distinguish in the Budget between current expenditure and capital investment in work of continuing national value, and to allocate revenue of a capital character to the latter.

But these are questions of detail. The main point is that if more revenue is needed, there are at least three sources—increment in land values, investment income, and estates passing by death—from which it can be taken without further infringing the canons of equity or seriously disturbing the efficiency of the economic machine.

PART II

INTERNATIONAL RELATIONS

CHAPTER IX

THE COLLECTIVE PEACE SYSTEM AND ITS ALTERNATIVES

Objectives of British Foreign Policy.—We said in the Introductory Chapter that there is now a new need and opportunity for leadership in organizing a world order freed from the menace of war. That is the subject of the second part of this book.

We ask ourselves, firstly, what should be the main objectives of British foreign policy?

The first of British interests is peace. We need peace for our country, peace for the British Empire, and peace for the whole world, whose prosperity and culture are interwoven with our own.

The chief long-range objective of British policy should therefore be to help in building up a world commonwealth of all the nations, assured of peace, sure and not too slow in affording international justice, efficient for promoting the fullest use of the world's resources for the general advantage, and sustained by a free and informed public opinion.

But there is an immediate objective which must at this moment compel the urgent attention and utmost effort of any British Government. A perilous armament race is now in progress, and the danger of a major war may become very acute within, say, the next ten years.

The primary task of statesmanship must be to create conditions in which this race can be quickly stopped and war prevented.

The following chapters are therefore concerned chiefly with the principles of policy as to this one subject, the prevention of war. The writers recognize, of course, that an immense field for international co-operation awaits development and that the positive work of organizing peace should become more and more predominant a part of the work of the League of Nations. But for the present, effective action to prevent war and war's equivalent is by far the most urgent task of foreign policy.

Prevention of War.—The danger of war is grave, but prevention of war is perfectly practicable. An assumption that war is now "inevitable" would be inexcusable; for war is not an inescapable "act of God" but a laboriously prepared act of human policy; it is as much a convention as the duel of honour, once tolerated but now treated as a crime. Indeed, within a large field of world affairs, war and the threat of war have been virtually eliminated already. And though the forces making for war are undeniably strong, those forces can now be opposed by an organization and an opinion on the side of peaceful order which are immeasurably stronger than those available in the anarchic conditions of 1914. The peace movement in this country, in America, and elsewhere is incomparably larger and more effective, more adequately supported by the Churches, better informed as to the real price of peace, and more ready that that price should be paid, than it was before the War. To be defeatist now would be the blindest of disservices.

But the danger of war is real. To recognize that is

not defeatism nor a sign of panic; to ignore it would be inexcusable complacency.

The danger should specially concern us now, both because of technical changes in the character of war and because of new political circumstances which have shaken confidence.

To-day, what is implied by the word war is something utterly different from what the word meant in Napoleon's time or even in 1918. To-day, in a war between organized modern States, the civilian population becomes deeply involved in the struggle, and the armies may comprise the bulk of the able-bodied manhood of the nation; so that, as Ludendorff wrote of the last war, it becomes impossible to say where the army begins and the nation leaves off. Even in the short time since 1918 the problem of national defence has been further transformed; the attacker has acquired an enormously greater relative advantage over the defender than ever before and the civilian population has become more than ever vulnerable. The perfecting of a single weapon since the Great War—the incendiary bomb—suffices of itself to create a new problem of survival for urban mankind and a new need for shared responsibility in the guarding of man's inheritance. An armament race is no new thing; but the armament race now in progress is much more perilous in character than any such race in the past.

As for the loss of confidence, it is plain that, since the Japanese aggression in Manchuria four years ago, confidence that the war danger will be steadily mastered and that the League of Nations will continue to grow in authority has suffered a succession of shocks.

Already, in its brief existence, the League has rendered magnificent service and has proved itself to be

by far the best instrument yet evolved for world co-operation and the safeguarding of peace. Membership has steadily increased, and the League has lately been strengthened by the adhesion of Soviet Russia; the United States has been associated with much of the League's activity and has lately adhered to the International Labour Organization. Yet it must be admitted that the League was maimed at birth by the abstention of the United States; its future was prejudiced by the initial error of excluding Germany; and it has lately been much weakened by the withdrawal of Japan and the withdrawal (not yet completed) of Germany.

The widespread acceptance of the code of peace-keeping embodied in the League's Covenant and in the Kellogg Pact has done much to promote confidence and to create a new ethic in regard to war. It must be admitted, however, that some of the League's members can hardly be regarded, on a candid estimate, as reliable subscribers to that code. Signor Mussolini has been frank in his repudiation of the idea that war can and should be eliminated from international relations; European statesmen are still ready to use threats that their countries will resort to war if certain policies are adopted; and Japan, tearing up her Covenant and Pact, has virtually annexed enormous territories in Asia.

As for the pacific settlement of disputes, the League and the Permanent Court of International Justice have achieved a success in their work of conciliation, judicial decision, and advisory opinion which far surpasses the poor record of pre-War years: in this respect, the progress has been much more far-reaching than is commonly realized. The settlement of the Mosul dispute in 1924, the Greco-Bulgar dispute in 1925, and the

Jugoslav-Hungarian dispute in 1934, suffice by themselves to justify all the effort spent since the War in developing this accepted system of pacific settlement.

But the important fact must also be recognized that the League method has not yet been used, and the League's machinery has not yet been developed, for the solution of outstanding problems concerning peaceful change of the *status quo*. It is true that far-reaching changes of the agreements embodied in Treaties, notably the Treaty of Versailles, have been peacefully effected since the War, without use of the League's machinery: but such problems as those created by the rapidly growing population of Japan have been regarded, rightly or wrongly, as too thorny for the League to touch in present circumstances, and little has been contributed through the League towards an enduring solution of the problems of the Danubian States. Europe remains dangerously divided into "revisionist" and "anti-revisionist" states.

The League's guarantees of collective security have been effective more than once in preventing and stopping hostilities; but confidence in those guarantees has been greatly weakened owing to the fact that it was not considered practicable to use concerted pressure in good time to restrain Japan's aggression in Manchuria. Whatever may have been the merits of the policy chosen by the British and other governments the consequence of that momentous failure to afford in China such protection as she was entitled in the circumstances to expect has undoubtedly been to shatter confidence in the West as well as in the East, and to stimulate rearmament. Confidence in the League's collective peace system has been further shaken by the prolonged failure to stop the "senseless

and horrible" war between Bolivia and Paraguay—two countries wholly dependent for their war material upon imported armaments. Fortunately, confidence has lately been revived to some extent by the League's successful treatment of the threatening dispute between Yugoslavia and Hungary, and by the opportune despatch of an international force to the Saar for policing purposes during the plebiscite.

Above all, confidence is shaken by the failure to conclude a general Disarmament Convention. In 1933, confidence in the whole method of international conference was weakened by the breakdown of the World Economic Conference; and that failure has been followed by a deadlock, now amounting to almost complete failure for the time being, in the World Disarmament Conference. The hopes of reaching an agreement sufficiently general and comprehensive to stop the futile race for supremacy in armaments were for a time almost abandoned; and even the measure of success previously achieved, by the Washington and London Treaties, in limiting the naval armaments of the chief naval Powers, is now imperilled, through Japan's denunciation of the Washington Treaty. The failure to agree upon the simplest measures of limitation, reduction, and control of armaments is at once a cause and a symptom of the lack of confidence.

In some cases confidence has been poisoned, and a demand for war material has been artificially stimulated, by those who manufacture or sell armaments for private profit.

Confidence cannot thrive when, as is now the case in some countries, nationalistic militarism is inculcated into the entire population from school-age onwards. A loyal and effective support of the world's code of peace

cannot be relied upon in those countries where freedom of opinion is denied and education for world citizenship is suppressed.

Nor can confidence thrive when anarchic economic nationalism is prevalent as now, and when the nations struggle to master profitable markets for their exports while simultaneously imposing recklessly injurious restrictions upon their imports. Whether we assign a first place or a secondary place to economic anarchy as a cause of war, we must in any case recognize that it is among the chief contributors to political anarchy and to the creation of conditions favourable to war.

For these and other reasons, we are compelled to recognize that the danger of war within the next decade or so may become extremely grave.

But we are convinced, as we have said, that the prevention of war and the elimination of the war system is perfectly practicable. Accordingly, we set ourselves in the following pages to answer the urgent question: What policy is best calculated to rebuild confidence and to prevent war within the next decade, so as to win time for the secure organization of the world's peace and prosperity?

Three Policies.—Opinions as to the best method of preventing war, applicable to the immediate political future, may be classified under three headings:

Armed Isolation.

Balance of Power and Alliances.

Collective Security.

(a) *Isolationism.*—The writers of this book are in agreement in rejecting forthwith the policy of isolation, —a policy generally coupled by its advocates with a

demand for the armed supremacy of their own country. No country in the world can really detach itself from the fate of others; and for no country is detachment less possible than for Great Britain, which is the nucleus of the most scattered and vulnerable association of States ever known. The British Commonwealth has a footing in every continent, and it has the status of a Great Power, not only in Europe, but in Asia, Africa, Australasia, and North America. If Great Britain were to profess her isolation from the affairs of Europe, she would not be able, in fact, to avoid being involved in those affairs; she has seldom been unaffected by them since the days of the Roman invasion, and is more intimately linked to Europe now, in the days of modern communications and modern weapons such as aircraft, than ever she was in the past.

It is an illusion to suppose that, by a policy of isolation, including such steps as withdrawal from the organized society of nations, we could somehow escape from being entangled in the consequences of the international anarchy which our withdrawal would promote. We should not be unaffected by the course of events; we should only lose our power effectively to control that course before too late. Isolated, we should inevitably be at the mercy of uncontrollable events: as colleagues in the enterprise of building up a peaceful world order, we could help effectively to master the explosive forces that make for war before they become uncontrollable.

Those who advocate isolation for our country generally hold also that the British Empire as a unit should seek its security in armed supremacy. We reject this policy as morally insufferable, politically suicidal, and technically impossible.

It has been claimed by militarists for centuries past, and is still claimed to-day, that "the one sure way to prevent war is to be so much stronger than your prospective opponent that he won't dare to attack you". But each cannot be stronger than the other; and no nation would have the right, even if it could obtain the power, to deny to another nation such security as it claims to be indispensable for itself. It may be argued that there was a time when Rome could without challenge impose some kind of Pax Romana upon the greater part of the Western world. There was a time in the nineteenth century when Britannia had the appearance of being able to rule all, or nearly all, the waves. But that time is irrevocably past. There is not one Rome now but seven Great Powers; the principle of parity in naval power with the United States has been fully accepted; and—what is a new and decisive fact—no Power, however heavily armed, can now hope reliably to defend its vital centres against devastation from the air. "Parity" in air power would not avail us: supremacy in air power would not be tolerated by others.

Even if any one Power, such as Great Britain, could, by great sacrifices, make itself preponderant in every arm over every rival, it would not thereby achieve "security". It could not even secure predominance for long, since the other Powers would certainly resent this unchecked dominance and would join together to curb it. As for true security—security, for instance, that British commerce would be fairly treated, or that British legal claims would be justly judged—no amount of competitive armament could guarantee that.

It is a significant fact that at the present time there is not a single statesman in this country who, having

had any experience of world affairs, yet advocates the policy of isolation or of withdrawal from the League of Nations. On other questions of primary importance referred to in this book the opinions of experienced statesmen are divided; but on this question of isolationism (and its opposite, the collective peace system) there is now a consensus of opinion unique in contemporary politics. The policy now advocated by isolationists commends itself only to those who have no first-hand knowledge of the problems and responsibilities involved in the foreign relations of a country which is linked to the British Commonwealth, linked to Europe, linked to America, and which has to find means of living on good terms with all of them in a dwindling world.

(b) *Balance of Power and Alliances*.—We also reject the policy of “Balance of Power”. It can never contribute now to our true security or the world’s peace.

By its nature, a balance is precarious. A Balance of Power policy leads inevitably to the massing of alliances against counter-alliances and to the grouping of forces, not for the preservation of a common code of peace against war—the common enemy—but to a grouping of forces jealously opposed to each other as potential enemies. In its most obviously dangerous form, the policy of Balance of Power leads to a division of Europe into armed and antagonistic camps, such as the Triple Alliance, which was opposed before the war by the Franco-Russian Alliance and the Anglo-French Entente. If a closed alliance were now made between France and Russia or France and Britain, excluding Germany, it would lead once more to counter-alliance on the German side and an unstable equipoise.

The suggestion is sometimes made that an Anglo-

American alliance would represent, not an objectionable grouping of Powers, but solely a disinterested and beneficent guarantee of world peace. We regard such an alliance as completely outside the range of practical politics. There is no chance that it would commend itself to American public opinion; and even if the alliance were practicable, we should not regard it as a satisfactory contribution to the general guarantee of peace. The closest possible co-operation and good understanding between the British Commonwealth and the United States should (as we emphasize in the next chapter) be one of the prime objectives of British policy, both for its own sake and as a guarantee of world peace. But an alliance is not the way in which that guarantee should or could be made; and an attempt to secure it would arouse suspicions in other countries of an attempt to dictate British-American conceptions to the diverse world of nations.

As for an Anglo-Japanese alliance, we should regard it as utterly indefensible. It would be a retrograde step back from the position adopted at the time of the Washington Treaties in 1922, when the peace of the Pacific area was treated as a collective interest. It would in effect be a betrayal of the principle for which we stand as members of the League. And, besides being deeply resented in China, it would have a disastrous effect upon Anglo-American relations.

There is of course an essential difference between an exclusive treaty of alliance, such as the old Anglo-Japanese alliance, and a reciprocal agreement such as the treaty of Locarno. The exclusive treaty cannot be fitted into a general peace system such as the League of Nations Covenant, for it assumes a division of the nations in peace time and is in effect directed against

particular national enemies in war time. The treaty of Locarno, on the other hand, was carefully framed so as to be compatible with the League's peace system; its provisions for mutual security were directed, not against a particular private enemy, but against the common enemy—a violator of the agreed code of peace.

(c) *The Collective Peace System*.—Having rejected the policy of Balance of Power and the policy of Isolationism, we conclude that, out of the three policies here considered, only the third—the Collective Peace System—offers a prospect of real security for the British Commonwealth and for the world's peaceful development.

To avoid any possible misconception, we here summarize what we understand by that phrase “the collective peace system”, and by the principle of collective security.

The essence of the collective peace system is that each nation should co-operate in peaceful development of the fullest life of the community of nations, that each should respect an agreed code of peace-keeping, and that each should accept a fair share of the joint responsibility for preventing and stopping breaches of that code of peace.

A collective peace system, already of great authority, now exists. It is imperfect and incomplete; but this is due rather to its inadequate application than to defects of structure. Sixty nations, comprising nine-tenths of the peoples of the world, now collaborate, through their governments, in the League of Nations, the International Labour Organization, etc., to strengthen the ties of peace and to prevent and stop war. The Covenant of the League, the Kellogg Pact, the Charter of the International Labour Organization, the Statute of the

Permanent Court of International Justice, are now so generally (though not yet universally) accepted that they can fairly be accounted as a world code of peace. That peace code includes the complete "*renunciation of war* as an instrument of national policy". It includes, for States members of the League, the obligation "in no case" to resort to war until *peaceful procedure* has been thoroughly tried. It includes far-reaching provisions for the acceptance of *peaceful settlement* of international disputes by impartial judgment; and it includes, in the Covenant, some provision for *peaceful change* of the *status quo* established by treaties. It includes undertakings, not yet fulfilled, as to the *general reduction and permanent limitation of armaments*; and it calls for measures to prevent the evil effects attendant on the manufacture and sale of armaments by private enterprise. It provides for *publicity of treaties*. It includes provisions for the trusteeship of certain colonial territories. It affirms certain (neglected) principles as to the equitable treatment of commerce. Above all, it has provided a permanent machinery for *conference*, and has made possible an immense development of collaboration and organization for the common purposes of peace. And, as a backing to all this pacific organization—not as a substitute for it but as a guarantee of its untroubled operation—the League's Covenant includes guarantees of *collective security*, *i.e.* guarantees of collective action to deter, and if necessary restrain, a State which resorts to war in breach of the covenanted peace. Signatories of the Kellogg Pact have, in effect, recognized that any war or threat of war is a matter of concern to them all; and the signatories of the Covenant had gone further, being definitely pledged to collective action to safeguard the peace of nations. If a

State resorts to war in breach of its peace-keeping obligations under the Covenant, the other members of the League are under obligations to restrain the peace-breaker by economic pressure; and the League Council may recommend to them what contribution of armed force is required "to protect the covenants of the League". These obligations were interpreted, by the British Government and others, in Annex F of the Locarno Treaties as meaning that, in the view of the signatories, each League member is "bound to co-operate loyally and effectively in support of the Covenant and in resistance to any act of aggression to an extent which is compatible with its military situation and takes its geographical position into account".

Building Peace and Restraining War.—Thus, the security which the League collectively offers to its members is two-sided.

On the one hand, there is the *positive* security which results from continuous work together in peace, from the peaceful settlement of disputes and the patient removal of causes of war, and from the gradual development of world government for certain constructive purposes. The reluctance of League members to forfeit the advantages they derive from membership of the peace-keeping community should become the most potent and satisfactory of all guarantees of general security.

On the other hand, the League has also to offer guarantees of security of a *negative* kind: it has to make plain in advance that its members must not seek to achieve their ends by ways of violence or menace, and that they cannot hope to achieve their ends by such means.

What is the least objectionable course for the community of nations to take in the event of a State resorting to war in breach of the agreed code of peace? The League cannot, if it would, ignore that question, for many States ask it insistently. Over certain areas of the world, international peace and reciprocal disarmament can already rest securely upon mutual confidence and the tacit assurance of community of purpose: but there are other areas where such confidence is lacking and where peace and disarmament evidently will not thrive without some guarantee contributed collectively,—some international “sanction” against peace breaking.

We discuss in Chapter III the moral, political, and technical issues involved in this question of sanctions, including the proper limits of Britain’s obligations. Here we need only say that, in our view, the League’s members were right in accepting, in advance of any crisis, a share of collective responsibility both for respecting and for preserving the League’s code of peace. Unless there is a sufficiently widespread and loyal acceptance of collective obligations to prevent, and in the last resort to restrain, a State from resorting to war in breach of the agreed code of peace, general disarmament conferences will result in nothing better than a juggling with the handicaps in a race for armed supremacy, and safety against the sudden devastation of modern war will remain unattainable for all.

The League’s provisions for building peace and for restraining war are complementary to each other. The guarantees of coercive action will be unreliable as an assurance and intolerable as a burden unless they form part of a system in which they are least likely to be needed: and the provisions for the constructive

organization of peace will be in danger unless they have the backing of preventive and coercive sanctions "to safeguard the peace of nations".

Collective Peace-building outside the League.—We do not for a moment suggest that the only existing expression of the essential principle of the collective system is to be found in the League of Nations. On the contrary, the Kellogg Pact is now a very important part of the system. The Treaties made at Washington in 1922, when the peace of China and of the Pacific area was treated as a matter of mutual concern, were a most valuable application of the collective principle within a particular region, and were perfectly in harmony with the Covenant, so far as they went; they proved to be of great value as a contribution to peace, confidence, and the restriction of armaments until Japan's policy, after September 1931, began to destroy the political foundations of the agreements. The collective principle was expressed, too, in the Treaty of Locarno, which was designed as another brick to be used in the League's structure of all-round security. All these engagements were directed, not towards increasing the relative strength of an exclusive group against particular private enemies, but towards increasing the general security against violation of agreed standards of peaceful order: and all were moves away from isolation, away from the policy of closed alliances, towards recognition that peace is a collective interest and armaments a matter of general concern.

The Present Weakness of the Collective System.—But whilst we gladly recognize that the collective principle is thus being supported in various ways, we are deeply conscious that the collective system itself is still weak

and inadequate. In part, that system consists of a mechanism whose efficacy depends on the extent to which it is used and on the motive power behind it: in part it consists of a code of political conduct whose value depends on the extent to which its signatories will observe it in spirit and in letter and will trust each other to do likewise. Slowly, this system begins to acquire a supporting loyalty in the minds of the citizens of different countries; and we may hope that in time this conscious loyalty will operate so powerfully upon all the constituent Governments as to supply a sufficient motive power for working the system. But at the best this growth of a larger loyalty can only be slow. The national loyalties and passions which form the soil in which national Governments are rooted have been evolved through centuries of struggle; it is not to be expected that the loyalty slowly and painfully acquired within the relatively small and familiar national units will quickly and easily be supplemented by the larger loyalty now required. It is not surprising that, in so far as the existing collective system has proved inadequate in some of its most difficult tasks, the failure has been largely due to the fact that the system is not yet deeply rooted in traditional loyalties.

The advantages to be derived from the collective peace system are as yet but dimly realized; the responsibilities of guarding it against violence are as yet very hesitantly accepted; and, while the nations are still armed to the teeth, the risks of collective restraint of a peace-breaker may be daunting. The greatest of national units, America, as yet accepts only a part of the full collective peace system endorsed by Members of the League. Japan, with her predominant power in

the Western Pacific, has withdrawn from the League; and Germany, a Great Power in the midst of Europe, now heavily armed again, has withdrawn from Geneva and will soon cease formally to be a Member of the League. In many countries, too, the system of exclusive alliances and understandings, with its accompaniment of secret treaty engagements, persists in spite of the Covenant. A long time may elapse before some nations fully accept the collective peace system; and in any case a long time must pass before the conception of shared responsibility for the peace of the whole community of nations has its full effect in transforming national policy and social ethic.

We assume therefore that, amongst the driving forces of world politics in the coming period, tendencies making for isolation will continue to be evident and strong, side by side with the tendencies making for co-operative building up of peace: and we assume that the causes which have hitherto led to competitive arming and closed alliances will continue to operate with greater or lesser potency. The collective peace system founded on the Covenant and the Kellogg Pact will have formidable forces against it.

British Policy.—In this situation, which course should Britain choose? A policy calculated to strengthen the collective system, or one which will have the effect of weakening it? We have no doubt as to the answer. In the interests of this island country with its vast foreign trade, in the interests of this vulnerable and scattered empire, and in the interests of the world as a whole, British policy must be directed towards strengthening the collective peace system in every possible way.

With this we couple, as an indispensable comple-

ment, the development of the closest possible co-operation with the United States.

In the next three chapters we deal with these two interlocked subjects—Anglo-American co-operation and the strengthening of the collective peace system.

CHAPTER X

CO-OPERATION WITH AMERICA

WE attach the very first importance, as we have said, to developing co-operation between the British Commonwealth and the United States. We urge this in the national interest and as a means of facilitating American collaboration in the making of a peacefully ordered world.

Importance of American Co-operation.—The importance of American co-operation in the work of peace-making cannot be over-estimated. When we consider how powerful are the forces making for explosion and how imperfect as yet the collective peace system remains, we are forced to recognize that there will be little chance of a peaceful evolution if the United States stands isolated, or stands in such a relation to other Powers as to weaken rather than strengthen their efforts after collective security. America's co-operation can be of special power and value not only because of her immense resources, moral and material, but also because of her relative detachment. The very fact that she stands outside most of the conflicts of policy which may cause trouble, though she remains vitally interested in the safeguarding of peace, may give to her judgment an exceptional authority. So strongly do we feel this that we venture the confident prediction that if the United States is brought into constructive and

co-operative relations with the collective peace system, that system will develop sufficient power to enable it to accomplish its principal tasks; if, on the contrary, such a relationship with America should prove unattainable, this full development will prove impossible.

We have stressed the advantages to the world of full American co-operation. We believe, too, that the advantages to America herself would be very substantial. For the real alternative before the United States now is, not between isolation on the one hand and participation in world affairs on the other, but between a more effective and a less effective participation.

America's foreign trade and investments are now on a colossal scale and carry American economic interests into every part of the world; the American Government is concerned to protect those interests effectively. America's standards of living are exceptionally high: so that her government is concerned, as the Roosevelt Government's recent adhesion to the International Labour Organization has indicated, in the international adjustments that are rendered necessary by wide differences in economic standard.

As for more purely political questions, America has found herself impelled in her own interests to participate more and more closely in many of the technical activities of the League, including the World Economic Conferences of 1927 and 1933, and the World Disarmament Conference. But her contribution to these enterprises has been deprived of some of the effect which it might have had owing to the lack of that continuous association which the League provides for its Members. The absence of an American spokesman from the League Council has meant that American wishes have not been adequately taken into account. American

governments have tabled proposals and then have missed the opportunity of seeing that those proposals were given effect to. The United States has gone so far as to send an "observer" to be present at the League Council, during the discussion of issues closely concerning the United States, but he has not been in a position to collaborate effectively as a colleague. In short, the American contribution has been much less effectual than it would have been if America had been right inside the League, instead of half in and half out. *Ad hoc* co-operation with the League has proved an unsatisfactory relationship both for America's direct interests and for the maintenance of peace.

We should regard the entry of the United States into the League as of inestimable benefit to the world and the surest guarantee of the peaceful evolution of that world order in which America has so great a stake. But the best way in which League members can promote closer American co-operation is, not by appealing to her to "come over and help us", but by demonstrating that the League is indeed loyally supported by its members, and is able to render services for the positive organization of peace as well as for the prevention of war with which the world cannot now dispense.

We recognize that behind the recent American decision not to adhere to the Permanent Court there is a volume of public opinion, probably very large at present, which is opposed to any further step which can be construed as implying "entanglement" of the United States with European quarrels; and we hazard no prediction as to whether the United States will come into, or come nearer to, the League in the near future. But we predict with some confidence that, unless the League's principles are inexcusably deserted by the

League's members, American association with the League's collective peace system will in time become closer, not looser. We anticipate that, in the Pacific and in Eastern Asia, American interests in peace and in the maintenance of traditional policies concerning equality of commercial opportunities and the integrity of China will have the effect of ranging the U.S. Government among the supporters of agreed standards of peaceful order.

Britain as the Link.—It is clear, we think, that the British Commonwealth is, at this stage, better fitted than any country to afford a link between the United States and the League's peace system.

In saying this, we do not mean to advocate an Anglo-American alliance or exclusive understanding in any form. Such a policy would be wholly contrary both to the general traditions of the United States and to the principles of the League. If attempted, it might even have the effect of reviving memories of Anglo-American struggles in the past. What we do advocate is the same kind of close co-operation for the service of peace as is found now between the Scandinavian States and within the British Commonwealth: a co-operation which is based so securely upon mutual confidence and essential community of purpose that the risk of war by any one of the parties against any other can be left completely out of account. Such co-operation as this is properly regarded as valuable for the League's cause of peace.

Present circumstances are in many respects favourable to such an association between the British Commonwealth and the United States. The earlier bitterness that followed the separation has passed; and many specific causes of trouble have dropped away, or have

become less troubling, though questions concerning war debts and freedom of the seas remain. As we look ahead, it seems now that the essential objects of the two peoples are broadly the same: in spite of differences of circumstance, the two peoples are well fitted for collaboration. They have few conflicting ambitions; they have a common tongue; and they are alike in having a dominant interest in, and desire for, world peace.

Difficulties.—As regards specific causes of possible friction, we do not forget that the question of war debts remains unsettled. The situation now reached has been due largely to the fact that the general conditions of world trade have rendered impossible the payment of the full British debt to America, and the attitude of American opinion has prevented the acceptance by the American Government of an adequate scaling down of that debt. American opinion did not adjust itself to unanticipated developments in the world situation, as regards the volume and distribution of external trade; the result being that the Administration in Washington has been unable to accept such a settlement as would be recognized as reasonable by most competent observers.

But, on the other hand, we feel equally strongly that it would be regrettable if the reasonable British view that drastic revision is necessary were to be changed, now that payment has temporarily ceased, into an expectation that there will be complete and permanent cessation of all payment of this debt. British opinion ought not to regard the question of war-debt payments to America as a finally closed book.

As for the question of "freedom of the seas", this has been, of course, an issue of paramount importance in the relations between the two countries, and it might

be made such an issue again. Now, however, a fortunate change has been taking place. The doctrine of freedom of the seas used to represent only an arbitrary compromise between the claims of neutrals and the claims of belligerents in a private war at sea; but now the new doctrine of freedom of the seas enunciated by President Wilson has shown the way towards an agreement on durable principles of world order. The high seas should only be closed, if closed at all, by international action for the enforcement of international covenants; the claim to use blockade as an instrument of national policy, for the coercion of national enemies in a private war, should be wholly renounced. American opinion is perhaps not ready to accept the full implications of President Wilson's doctrine, but there is now a fortunate development of American policy in the direction of recognition of the League's international action "for the enforcement of international covenants". There is also a growing recognition in this country, we believe, that British naval force should never be used except in a cause sanctioned by the League and unlikely to bring us into conflict with the United States.

We have to recognize, however, that there are other obstacles in the way of the close co-operation that we contemplate, both in America and elsewhere. For instance, difficulties arise from the fact that, owing to the American Constitution and American traditions, the foreign policy of the United States is less predictable than that of other countries. In America, the agreements which the State Department negotiates with other countries have to be based to an exceptional degree upon principles firmly rooted in American public opinion; and other countries must recognize

that the arrangements that they may make with the United States cannot be relied upon to stand in face of a substantial change in American public opinion. Thus, the predictability of American foreign policy has perforce to be based not wholly, or even mainly, upon binding treaty engagements, but rather upon the enunciation, and the evident acceptance by public opinion, of certain cardinal principles of policy.

But this characteristic of negotiations with the United States is naturally uncongenial to those trained in an older diplomatic school. The British Foreign Office, for instance, has built up its traditions through generations of negotiation with continental States whose foreign offices have been free to a large extent to bind their respective peoples, and to bind them by engagements which until recently were not necessarily made public. It is not surprising if an office so trained finds a special difficulty in adjusting itself to the very different method of negotiation which is necessary in dealing with the United States.

But, whilst appreciating the circumstances which make American foreign policy less predictable than that of other countries, it is necessary to appreciate also the point of view of those countries which have to calculate how far they dare to rely on the anticipated policy of others. The United States may say, in effect, to Europe (as British governments have often said): "You cannot expect us to commit ourselves definitely in advance, but you may trust us to do the right thing when the time comes". But to some other country which has to calculate how much the assurances of international solidarity are worth to it, this attitude must seem somewhat paradoxical. Such a country might reply: "If you do not know yourselves what policy your

country may be expected to adopt in given circumstances, how can we, who are more exposed to military risks than you are, be expected to rely upon your course of action?"

Recent Progress.—In these circumstances, it is fortunate that some recent developments of American policy have tended to reduce uncertainty as to the course which the United States might take in the event of an admitted breach of the world's code of peace. America's acceptance of the Kellogg Pact affords a substantial assurance, so far as it goes; and it appears safe to assume that, if the United States were satisfied, after due inquiry, that the Pact to which she is party was being violated, she would not remain wholly indifferent. Up till 1928, a would-be peace-breaker might have been tempted to gamble on the chance that the League Council would be paralysed through fear of American challenge to the League's sanctions; but since 1928 that danger has been much reduced, not only by the Kellogg Pact with its implied abandonment of the non-moral attitude towards war, but also by Mr Stimson's notable declaration of August 8th, 1932, and by the declarations of Mr Norman Davis on May 22nd, 1933, and May 29th, 1934. There is now good hope that the United States will be prepared, if a general Disarmament Convention is made, to confer with the League's Members in the event of a breach or threatened breach of the Kellogg Pact or of the Convention; and that, if the United States concurs in the decision taken in determining an aggressor, it "will undertake to refrain from any action and to withhold protection from its citizens if engaged in activities which would tend to defeat the collective effort which the States in consultation might have decided upon

against the aggressor”¹. The undertaking which the United States has offered conditionally would be a negative one; there would be no obligation for the United States to participate actively in the League’s measures for restraint of a peace-breaker. But the negative undertaking would be of great value. It would reduce the danger that the world’s peace code may be challenged; the danger that the League’s sanctions may have to be used; the danger that the League Council, and especially Great Britain, may be dissuaded from acting promptly and energetically in support of the Covenant through fear of an American challenge; and the danger that the collective peace system of the League may be deprived in a crisis of American support. Moreover such an undertaking would obviously greatly increase the likelihood of America deciding upon a more positive participation in the exercise of influence or pressure upon the aggressor State, if peace-breaking should occur.

In conclusion, we may quote some words from a recent speech by General Smuts with which we are in complete agreement: “The British Commonwealth has its feet in both worlds. Through Great Britain, one foot is firmly planted on this old Continent; through the Dominions the other foot is as firmly planted in the outer newer world, where the United States already plays so great a part. The Dominions have some stronger affiliations towards the United States than Great Britain has. . . . Through the Dominions, British policy is ultimately tied up with the United States in a very profound sense, which goes much

¹ Mr Norman Davis, on behalf of the American Government, May 22nd, 1933. The Secretary of State, Mr Cordell Hull, renewed this assurance in Feb. 1935, speaking at the annual dinner of the Canadian Society in New York. (*Times*, Feb. 18th, 1935.)

deeper than the occasional jars which perhaps are more acutely felt at any particular moment. . . . Any policy which ignores that affinity or runs counter to it is calculated to have a disruptive effect in the Commonwealth as a whole. Here we are on bedrock which we ignore at our peril."

CHAPTER XI

MAKING THE EXISTING PEACE SYSTEM WORK

WE turn now to the question: How can British policy best help to strengthen the collective peace system? In particular, how can British policy help to ensure that the collective system is *widely understood*; that it is *effectively supported and fully used*; and that it is wisely and courageously *developed* when circumstances are favourable.

Spreading understanding of the Collective System.—A primary need is to spread understanding of the advantages and responsibilities involved in support of the collective system.

In many countries, understanding and informed support of the collective system cannot grow at present, owing to lack of liberty, and censorship withers all candid discussion, especially such discussion as might have a pacific or internationalist tendency. Germany, Italy, Russia, and Japan are now countries in which no free political movement can lift its head. Some of the governments in power appear to be directing opinion away from, rather than towards, the conception of a peacefully ordered commonwealth of nations.

The very fact that democratic education for peace is thus hampered or suppressed in some countries means that special responsibility now rests upon those

countries where freedom of opinion exists, particularly our own country. The British people are, for the most part, deeply interested to-day in the broad choice of policies likely to secure peace; and we believe that a great proportion of the electorate would readily respond to a democratic appeal by the Government's spokesmen for better appreciation of the implications of the collective system. Unless the electorate is fully aware of the nation's undertakings as to renunciation of war and pacific settlement of disputes, such engagements as the Covenant and the Kellogg Pact, the Optional Clause and General Act, will be of much less value than they should be for restraining dangerous passions and guiding national policy in a time of crisis. If the country is not sufficiently aware of the binding assurances given in its name as to the reduction of armaments by international agreement, the long effort to effect such reduction and limitation will be deprived of much of the backing which it should command. Obviously, too, it is of great importance that the country should appreciate fully both the need for and the advantage of unequivocal acceptance, *in advance* of a crisis, of a fair share of the collective responsibility for protecting the community of nations against violence and trickery; the nation's obligations to support the sanctions of the Covenant must be well understood by the nation if they are to have their full value as a *preventive* of war.

The experience of 1914 should teach us that, if war is to be prevented, the kind of policy that will be adopted by Great Britain in the event of war should not be left uncertain until a crisis has arisen. It is only by adopting in advance a policy which in its broad lines is "predictable",—only by "taking sides against

war" beforehand—that we can reduce the danger of war to a minimum.

There is, we believe, much too little recognition in this country of the advantages which Great Britain and the whole British Commonwealth can derive from the collective peace system. The advantages we obtain day by day from the services of the League and International Labour Office and the International Court of Justice deserve much wider publicity and appreciation. Moreover, when referring to the League's guarantees of collective security and the sanctions of the Covenant, Englishmen are too apt to think of themselves solely in the rôle of generous guarantors of other people's peace and to ignore the immense value of the League's guarantees as an assurance of British security. In the Great War, this country needed the collaboration of a vast alliance: if another major war were to occur, our need for such support would probably be not less great, and our far-spread communications would be not less vulnerable. The assurance that the loyal Members of the League would be on our side in any conflict in which we were not ourselves violating the League's code of peace would be immensely valuable, especially if the British fleet had to operate in distant waters.

We have much to gain as well as much to give.

The Air Pact for Western Europe, which is under discussion when we write, may be of value in this respect:¹ for its guarantee of immediate assistance with air forces to "the victim of unprovoked aerial aggression" would be extended to Great Britain as well as to France and Germany.

New opportunities and a new technique for democratic leadership are now available; we urge that they

¹ See page 304 for the connection of this subject with disarmament.

should be adequately used in enlisting public support for a collective system. Confidence in British support of the collective system has unfortunately been weakened in recent years, and there have been times when the Government's spokesmen have used such language as to contribute to this weakening,¹ and to destroy to some extent the value of other declarations in a contrary sense;² and we consider that the Government is far from having given an adequate lead to public opinion in this matter or an adequate welcome to unofficial efforts to promote popular understanding of the choice of policies concerning peace. We urge, too, that nothing should be done that might have the effect of impairing freedom of opinion in the discussion of peace policy. Education for peace has perhaps been carried further in this country than in any other; but here as elsewhere the task has only been begun. In particular, the opportunities which the collective peace system offers for promoting the fuller use of the world's plentiful resources are far from having been adequately realized; and the obligations which it imposes, involving as they do a far-reaching curtailment of the anarchic licence of sovereign States, are still far from having won sufficient acceptance by the peoples concerned.

Back to the Covenant.—Next, we urge that fuller use should be made of the Covenant as it stands, and that its existing provisions should be more fully carried out. The peace system based on the Covenant and the Kellogg Pact is admittedly a beginning and imperfect;

¹ *E.g.* Sir John Simon's speeches on the Far Eastern conflict, February 27th, 1933; as to the obligations of Locarno, November 1933; as to Art. X of the Covenant, March 1934; and Mr Baldwin's speech, as to the collective system, Glasgow, November 1934.

² *E.g.* Mr Baldwin's speech on Locarno, November 1933; Mr Eden's speech, March 18th, 1935.

but it is incomparably superior to anything of the kind previously created, and it has succeeded in preventing war in every case hitherto in which it has been used resolutely and in good time.

We suggest below certain extensions of the collective system which might, we think, be made with advantage when conditions are favourable. But what is needed now, far more than any additions to existing engagements and organization, or any tidying-up of texts, is a clear demonstration that these existing engagements are accepted as binding and are interpreted as instruments meant to work. The Covenant just as it stands affords an ample basis for an immense programme of peace-building, provided always that it is treated, not as a precisely drafted set of rules to be legalistically interpreted, but rather as a statement of principles to be progressively worked out in conformity with the League's essential purpose. "Back to the Covenant" might well describe a large part of the programme of a progressive and realistic Foreign Office.

Using the League.—It is, we believe, a "penny wise economy" (to quote Mr Winston Churchill) to grudge the relatively trifling additional expenditure which would enable the League and International Labour Organization, etc., to render much greater services for the common good. At the present moment, for example, the magnificent work of the Nansen International Office for Refugees is being liquidated, owing to the demand for economy, though the number of refugees requiring assistance has hardly diminished. Nearly a million unfortunate people, many of them unfitted for work owing to age, illness, or youth, still need help; 800,000 of these are Russian exiles, including many women in the Far Eastern cities; and the numbers are

now augmented by *émigrés* from Germany, including the Saar. The work on slavery is likewise hampered by lack of money; and the health work has been curtailed and injured, *e.g.* in the case of the League's Health Bureau at Singapore, despite the enormous loss and suffering which are annually relieved by this service.

Much could be done to make the League better known to the general public, and to make the League's documents more fully and quickly available to students, if more money were available for this part of the League's budget. A promptly printed record of the proceedings of the Assembly and Council, comparable to Hansard, ought to be produced, instead of tardy and inadequate summaries.

We believe that the work of the International Labour Organization might be increased in value if more officials from the Office could be sent to foreign countries to get into contact with governments and to study on the spot the application of I.L.O. Conventions.

In particular, we suggest that more use might be made of the international civil service at Geneva for technical, statistical, and other kinds of research into such questions as the development of civil aviation, the direction of emigration, etc.

The Economic and Financial Section of the League Secretariat might render a useful service by preparing an index of values of certain principal commodities which might be used in adjusting the burden of debt payments and as the basis of future contracts. It would be easy to multiply these examples.

The total budget of the League, I.L.O., Court of Justice, etc., for 1935 amounts to £1,225,586; the contribution of Great Britain will be about £127,238. We do not suggest that all that is needed is an increase

equivalent to the cost of one light cruiser—say a million pounds—in the League's annual budget, to which this country contributes about one-tenth; much more important even than that is the determination to make fuller use of the services which the international organization can render if it is given a chance. But an increase of the League's budget appears to be desirable on many grounds, and would be an evidence of better recognition of the value of that positive security which can be derived only through strengthening the ties of peace by such means as the League affords.

Fulfilling the Covenant.—Besides making better use of the League's machinery, we need still to fulfil many obligations in the Covenant which are not yet honoured.

It is notorious that the obligations of Article VIII as to the general reduction and continuing limitation of armaments have not yet been carried out. Nor has the Council yet advised upon the means of preventing the "evil effects" attendant on the manufacture and sale of armaments by private enterprise.

In the Sino-Japanese conflict, the countries who were signatories of the Covenant, the Kellogg Pact, and the Washington Treaty failed to exert sufficient pressure and influence in good time to prevent the breach of these treaties by Japan.

Article XVIII, which provides that no treaty or international engagement shall be binding between Members of the League until registered with the Secretariat, has been stultified to some extent by the conclusion of military conventions which remain unregistered and unpublished.

(We should welcome a specific declaration by H.M. Government that it understands Article XVIII to

mean that no treaty made by the League Members and not published is recognized as valid; and that the Government will in no circumstances be party to treaties which do not comply with this requirement. Ministers and ex-Ministers might well declare, in their capacity as public men who may return to office, that they will not consider themselves bound to observe or maintain secrecy as regards secret treaties which would be a violation of the national pledges given in the Covenant.)

Article XIX, which provides for reconsideration of treaties and the consideration of international conditions whose continuance might endanger the peace of the world, has never yet been used. (See pp. 271-272.)

Article XXIII includes the somewhat vague undertaking that League Members "will make provision to secure and maintain freedom of communication and of transit and equitable treatment for the commerce of all Members of the League". The Article also calls for an endeavour "to secure and maintain fair and humane conditions of labour" both at home and "in all countries to which their commercial and industrial relations extend". Evidently there is still very much to be done in fulfilment of these undertakings, although much benefit has been derived from the work of the International Labour Organization, and the League's economic and financial services have been used to great advantage in some respects. Indeed, the League's development on the economic side has hardly had a chance; since 1928 it has been overborne by economic nationalism.

As for the system of protection of minorities in certain countries, for which the League was made a guardian, we recognize that this is working most inadequately. Whilst there was a favouring wind, the system

worked well enough, within its limits, to afford some protection to the minorities concerned: but the League's machinery for this purpose has always been defective; and it has become only too plain that, where the minorities are subject to governments profoundly out of sympathy with the League's general temper, the existing system can afford little or no effective protection. We doubt whether, in those cases of special difficulty, the protection would be made adequate even by an improvement of the League's machinery, though in some disturbed regions much good has been done by the mere presence of officers responsible to the League, who can report on dangerous conditions and often correct the false rumours by which most massacres are started. This practice, with the consent of the governments concerned, might well be carried further. As for the possible extension of the Minority Treaties, it must be noted that the Powers not bound by any such Treaty have twice over (in 1922 and 1935) undertaken to observe towards their own Minorities "at least as high a standard of tolerance and fair treatment as is required by the Treaties". This undertaking has not merely a moral value: it affords the opportunity of raising before the Assembly of the League any case of grave oppression. Nations have often a tender conscience about other nations' crimes, and publicity is in such cases the League's best weapon.

Principles and Technique of the Collective System.—But all these developments will be unavailing unless the principles of the collective peace system are better understood by the governments—not least by our own—and unless the technique of diplomacy is reshaped accordingly.

The attitude of the British and French governments

towards Germany during the Disarmament Conference, and the secret preparation of schemes for presentation to her (*e.g.* in July 1932 and October 1933), showed not only insensitiveness to Germany's psychological condition but also blindness to the fundamental requirements of a truly collective peace system. At bottom, Germany's claim to equality of rights expressed a principle which must be conceded to all its members by any society that seeks to secure peace and justice by collective action. The whole conception of collective security against war, as the common enemy of mankind, is a new one; and it is not surprising, though it is deeply regrettable, that most contemporary statesmen and all contemporary War Departments are apt to think of security not as a function of the collective security but solely as national security against this or that prospective national opponent. The League of Nations will not become what it should be until Germany genuinely accepts the collective peace system, and the collective system will not be properly based on equality of rights until the governments of Britain, France, and other countries cease to claim for themselves a kind of national security which they deny to others.

The chief source of danger in Europe, and the chief problem and test of the collective system, obviously arise from the relations between Germany and her neighbours. Reconciliation can only be brought about by a respect for international obligations and an honest attempt to bring to an end the division of Europe into victorious and vanquished Powers. We need, in facing this problem, to recognize equally both the fears and apprehensions naturally aroused by the present régime and public temper in Germany, and also the delays

and defects in the policy of the other Powers in the post-War years to which they are partly due. We need at once to maintain the principal objectives of our long-term policy, and at the same time to be prepared for any special measures required by the current situation.

It is therefore amongst the urgent tasks of the governments to complete the membership of the League in Europe, to see to it that in future all League Members have an equal sovereign status, and above all to ensure that the League so developed is a strong and practical instrument of collective action to meet whatever dangers may arise.

We believe that, with a view to removing the present state of uncertainty in Europe, the British Government should submit, as it did in 1933, a workmanlike and detailed proposal, on the basis of equality. Let that proposal include the international supervision and mutual guarantee of the proposed convention, and let it also include a clear indication that Britain will fully share these responsibilities with all other signatories.

This country and other Members of the League should in this way make it clear beyond any possibility of misunderstanding in Germany or elsewhere that they recognize her full equality of status and sovereign rights, and remain continuously ready to welcome her as an equal participating Member of the League. They should at the same time all devote themselves, with Germany if she is willing—but if not, without her—to making the League and the collective system in every possible way strong and effective against any breach of the peace. If any country should nevertheless leave the League, and ultimately resort to war, a collective system so developed and strengthened would in prac-

tice operate in the same way as, in the alternative, any exclusive alliance now contracted might do; but it would operate with great advantages which no alliance could enjoy. The essence of the collective system is that it utilizes combined strength, not against an already pre-determined country, but against war—or against any country which may resort to war,—and that it remains continuously open to any nation not engaged in defeating its purposes to join and co-operate on an equal footing in the preservation of peace and the removal of legitimate grievances. Such a collective system, if sincerely applied, has a moral justification denied to any exclusive alliance: and apart from the further strength which it derives from that moral foundation, it can be as strong, materially, as any alliance. With a preponderant collective strength it can be at least an equal protection against an immediate danger, and at the same time it offers a prospect, as no alliance can do, of the establishment of peace upon the only possible sound and lasting foundation.

The course we advocate is thus one neither of drift, nor a weak yielding to pressure, nor slackness in preparation against whatever danger may arise. It offers alike justice and protection. But it meets the needs of the current situation without sacrificing those of a permanent settlement.

.

To sum up: the collective peace system that exists ought to be much better known, more fully and constructively used, and more loyally and completely put into effect; and its fundamental principles ought to be much better appreciated by the governments responsible.

CHAPTER XII

IMPROVING THE COLLECTIVE PEACE SYSTEM

EVEN if the existing collective system were being fully used and loyally applied, and even if such injuries as it has suffered had been fully made good, there would, of course, still be great need of improvement and addition. The peace system based on the Covenant and the Kellogg Pact is but a rudiment, a first imperfect indication of what the world commonwealth will need if it is indeed to build up a world-wide service and authority commensurate with those needs and opportunities which are also world-wide.

Present Difficulties.—In submitting some suggestions for the improvement or fuller application of the system, we recognize at the outset that any change of the system must be approached with extreme care under present conditions. For example, amendment of the Covenant, which is always difficult, would be especially difficult and dangerous at present. In particular, any change of the provisions and obligations about collective security, however desirable in itself, would be inopportune unless the principle of collective security, both on its constructive and on its coercive side, is wholeheartedly accepted.

Attempts to develop the provisions about peaceful change of the *status quo*, would encounter special difficulties at a time when faith in the renunciation of the

war method, and confidence that war has been renounced by others, needs to be strengthened in all countries.

It must, moreover, remain extremely difficult, probably impossible, to reach a satisfactory *modus vivendi* about restriction of naval armaments in the Pacific so long as, owing to the policy of Japan, there is no real community of purpose as to the conditions in which peace is to be maintained.

But it is plain that some action is urgently needed to break the present deadlock and stop the accelerating race in armaments. We believe that such action will involve, not only measures to rebuild confidence in the existing collective system, but also measures to improve and supplement that system in certain respects.

We submit some suggestions as to each main section of the task of preventing war, viz. renunciation of war, peaceful settlement, peaceful change, positive and negative security, and general disarmament. It is obviously impossible, in a general review of this kind, to indicate when particular measures may be likely to become opportune; we can only set down a list of developments of the collective system which deserve consideration as parts of that system.

(1) RENUNCIATION OF WAR

Every nation should absolutely renounce resort to armed force "as an instrument of national policy"; and every nation should likewise renounce the self-judged right of resort to armed force outside its own borders on the plea of self-defence. Evidently, however, cases may arise in some parts of the world in which local resources for maintaining law and

order may prove inadequate and in which the immediate intervention with armed force by a foreign Power, for the protection of life and property, would be justifiable. Any such intervention should be reported immediately to the League of Nations (as was done by Great Britain in the case of the British intervention at Shanghai in 1927): and its termination within a short fixed period should be obligatory unless a continuance is authorized by the League. Without unqualified renunciation of the "right of private war", confidence will not readily grow in those quarters where it is lacking; general disarmament will not be accepted; and international law cannot be developed on the proper principle that private war is no longer a subject of rights but an international crime. Very important steps in this direction have been taken in the Covenant, in Arbitration Treaties, and especially in the Kellogg Pact, with its renunciation of "war as an instrument of national policy". We believe that the Kellogg Pact, weak as it may seem, is really of great value for the development of a new social ethic as regards war and as a contribution to the indispensable minimum code of peace-keeping. It does, in effect, close the notorious "gap in the Covenant", by which League Members retained a conditional right to have recourse to war in the last resort.¹

¹ League Members agree, by Article XII of the Covenant, that, in the event of a dispute between them which is "likely to lead to a rupture", they will submit the matter either to legal decision or to enquiry by the League Council, and they agree "in no case" to resort to war until three months after this peaceful procedure has been fully tried. If they choose to submit the dispute to legal decision, then they are bound to accept and carry out the award given. If, on the other hand, they choose to submit the dispute to enquiry, conciliation, and report by the League Council, then the Council has to investigate the matter and try to effect a settlement. Up to this point the Council acts simply as an impartial mediator, the votes of the disputants being counted except

But the renunciation of force "as an instrument of national policy" is still not complete or universal, even on paper; and in some cases, national policies and the declarations of statesmen have the effect of discrediting the renunciation formally made. It is, of course, of the utmost importance that those formal renunciations of "war" and of "force" should be made real and sincere, with the help of a pacific educational system. No mere verbal engagements, however ample, will suffice as a basis for a world order freed from the war system, unless public opinion is free to discuss world affairs, able to obtain undistorted information about those affairs, and led by governments which sincerely desire the growth of loyalty to the principles of that world order.

Two developments, as regards the existing "renunciation of war" by the Kellogg Pact, appear to be desirable :

(a) "*Resort to War*" and "*Resort to Force*".—Firstly, there is need of a clearer answer to the question: What is that kind of action which signatories of the Kellogg Pact have renounced?

The word "war", used in the Pact, is too narrow (at any rate, if legalistically interpreted) to cover the intended meaning. In the Sino-Japanese conflict, "war"

on matters of procedure. If the Council succeeds in effecting an agreed settlement, that, of course, disposes of the dispute. But if the Council fails to effect an agreed settlement of the dispute, one of two things may happen. Either it will be able to make a report which is unanimously agreed to by all its members except the representatives of the disputants, or else it will fail to reach such unanimity. If it does make a unanimous report, then (under Article XV, paragraph 6) no League Member may go to war with any party which complies with the recommendation of that report. If, on the other hand, the Council fails to reach unanimity, then (under Article XV, paragraph 7) members become free (at least according to the letter of the Covenant as it stands) "to take such action as they shall consider necessary for the maintenance of right and justice"—*e.g.* to resort to war.

was not declared by either belligerent, yet "war in everything but name" existed. The word "war" might well be replaced or supplemented in interpretative documents by the words "resort to armed force". It should be made clear that the signatories of the Pact are bound not to resort to armed force, nor to threaten to resort to armed force, for the solution of an international dispute or conflict.¹

But even this definition is inadequate, since it involves a questionable attribution of *motive* to the peace-breaker. The fundamental question remains: What distinguishes "aggression" from legitimate "self-defence"?

(b) *The Definition of Aggression*.—The need for some more precise definition of aggression has been recognized by President Roosevelt, by the Russian Government, by the Security Committee of the Disarmament Conference, and by the governments, now numbering a dozen or more, which have accepted treaties of non-aggression embodying a definition of the offence denounced.

We need not here express an opinion on the technical question whether any one of the definitions thus proposed is verbally appropriate; but we believe that a solution can be found along these lines—that that State should be presumed to be an aggressor which refuses peaceful settlement of its dispute and resorts to armed force.

So far as League Members are concerned, the League Council should be empowered in advance to impose, in any case of doubt, obligatory peace-conserving measures, including an armistice, upon the disputants. (See the Convention for Improving Means of Prevent-

¹ Article 2 of the International Law Association's Buda-Pesth articles of interpretation of the Pact reads: "A signatory State which threatens to resort to armed force for the solution of an international dispute or conflict is guilty of a violation of the Pact".

ing War, which is not yet in force, but which should be ratified.)¹

We believe that a workable definition of aggression is practicable and can be of real value in the hands of a resolute international authority. It is sometimes contended that any definition which could be formulated would be worse than useless, since it would be liable to act either as "a trap for the innocent or a signpost for the guilty". And an analogy is drawn between the present situation and that which existed before the War. It is argued that, just as the means were then lacking for distinguishing promptly between aggression and legitimate self-defence, so the means are now and must always remain lacking. We are satisfied that, in the new conditions created by the League's existence, this contention is unsound and the analogy fallacious. The situation now is radically different from the situation in pre-War days; for now there does exist, happily, an established and widely representative international authority, a permanent peace organization, and a regular system of international conference, and a code and tried technique of war prevention. With the help of this collective peace system, including the imposed armistice, the distinction between spurious and genuine self-defence can be promptly and reliably established.

¹ This Convention, which is ready to be brought into force when a General Disarmament Convention is concluded, is designed to strengthen the League's hands in conserving peace. Its signatories agree in advance to empower the League Council to call upon States that have begun fighting to stop fighting, and to withdraw their forces behind lines which the Council may lay down. It also gives the Council the right to prescribe other "conservatory" measures to prevent war and the aggravation of a crisis, and binds the signatories to carry out these peace-keeping measures. There are similar provisions in the Franco-German arbitration Treaty of Locarno and in the General Act.

(c) *War Resistance*.—In connection with renunciation of war, we may refer here to an important and controversial question about resistance to war.

We are agreed that the old slogan "My country, right or wrong" represents an anarchic attitude which must be superseded; otherwise no world commonwealth, supported by a real sense of world citizenship, can ever grow. We agree, too, that it is better to concentrate upon ensuring that a government shall loyally and effectively fulfil all the obligations (and obtain all the advantages) of the growing code of peace than to devote attention principally to the question: What should the citizen do if his government should persist in a policy that is in flagrant breach of its peace obligations? But the latter question cannot be ignored. It is, we consider, of the utmost importance that governments should realize that public opinion affords a real sanction against breach of their obligations under the Covenant or Pact. A government should feel that it cannot count on support from its citizens if it should attempt a lawless policy.

(2) PEACEFUL SETTLEMENT

We consider that all nations should undertake in advance to submit to and accept pacific settlement, by third-party judgment, in all their international disputes which cannot be settled by normal diplomatic means. Much progress has been made in this direction, but here too, as in the case of renunciation of war, the acceptance is neither universal nor complete.

The Covenant binds its signatories to submit all disputes "likely to lead to a rupture" to pacific procedure; it declares that certain kinds of disputes are "generally

suitable" for legal decision; it insists that the right to begin a private war must in all cases be deferred until pacific procedure has been fully tried, and that in some circumstances (*i.e.* when the Council's report under Article XV is unanimous) even the ultimate conditional right of war must be renounced:¹ but it does not definitely commit its signatories to the acceptance of a pacific settlement. Nor does the Kellogg Pact do this; it only binds its signatories never to seek a solution of disputes between themselves "except by pacific means".

We believe that this is not enough. Disputants should not only renounce the right of immediate war (as in the Covenant), and the right of ultimate war (as in the Kellogg Pact), but also the right to maintain a deadlock indefinitely.

We recognize that, when national passions are aroused, it may often prove advisable not to hurry the negotiation of a settlement or to proceed quickly to a decision which the disputants would be required to accept. It is inexpedient to prescribe a rigid procedure for quick and uniform application in all cases of dispute.

But we believe that the principle that a third party's judgment must be accepted in the last resort is fundamental; we believe that, as the collective peace system grows in strength, it will come to be recognized that the firm establishment of this principle of third-party judgment is indispensable for the evolution of a peaceful society of nations whose members can have confidence in their equality before the law.

We therefore attach great importance to the many treaties which definitely provide in advance for the acceptance of pacific settlement, especially the great

¹ See footnote, p. 258.

multilateral treaties, the Optional Clause and the General Act.

We welcome especially the British signature of the Optional Clause, which provides for the acceptance in advance of the jurisdiction of the Permanent Court of Justice in international disputes of a legal character. We regret, however, certain reservations which were made in the British acceptance of the Clause, believing that these introduce an injurious element of uncertainty and vagueness into the whole commitment, and we hope these reservations will be reconsidered and reduced, if not wholly withdrawn. The firm establishment of the rule of law in all questions concerning rights is of paramount importance to the British Commonwealth, vulnerable as it is and spread into every continent. Even if the judgment of an impartial third party were, for instance, to involve payment by this country of some millions of pounds in one case, or a readjustment of strategic plans in another case, the loss would be much less damaging to national security in the long run than the loss of respect for our country and the loss of confidence in the capacity of the collective peace system to assure justice to its supporters.

As for the General Act, which provides for pacific settlement of disputes of a (so-called) "political" character as well as those classified as "legal", we regard continuance of the present British adherence as extremely desirable. In the opinion of some, the formulation and acceptance of the Act were premature and inexpedient; and we recognize that the Act as it stands is a defective text, marred by its omission of reference to the League's convenient machinery of conciliation and by its unduly rigid and rapid provision for the submission of disputes to arbitral decision if conciliation breaks down. But

these defects can be remedied when circumstances are favourable to revision of the Act; they should not be advanced as reasons for rejection of the obligation to accept a third party's judgment in the last resort.¹

In connection with this question of peaceful settlement of disputes between States, we note that at present the principle of arbitration has ceased to operate, with most unhappy results, between Britain and the Irish Free State. We consider that, in present circumstances, having regard to the effects of the Statute of Westminster and of the separate representation of the Dominions at Geneva, it would be advisable to abandon any too legalistic insistence on reference of inter-Imperial disputes to an exclusively Imperial tribunal. It matters far more that inter-Imperial relations should not be embittered by ruinous disputes unsettled than that a particular Imperial tribunal should be preserved: and the Permanent Court does now offer—what did not exist before the War—a permanent and tried alternative tribunal which merits the fullest confidence and respect of all concerned.

(3) CHANGE, BUT PEACEFUL CHANGE

We assume that provision for peaceful change of the *status quo* is indispensable. It is indeed the necessary complement of the renunciation of force and of acceptance of pacific settlement of disputes, under guarantees

¹ It is sometimes urged, as an objection to the General Act, that by promoting pacific settlement without adequately providing in itself for peaceful change, the Act will conduce to an unjust and dangerous crystallization of the *status quo*. We consider that this is not a valid objection to the Act; the shortcomings of the existing provisions for peaceful change are real, but they ought not to be advanced as an excuse for refusal to extend third-party judgment.

of collective action to restrain peace-breaking. The society of nations, like society within the nation, must find peaceful means of adjusting conflicts between rigid law and the changing needs and conceptions of justice: otherwise, the barriers against violence will not be secure.

Change must be provided for; but the change must be made by peaceful means only. We often meet the argument, explicit or implied, that an ultimate right of war should be retained, as a means of securing change either by menace or by the actual use of force. It is argued—and the case is a substantial one—that statesmen will not seriously consider large questions of change, involving concessions on their part, unless they have to face the prospect of an explosion. We meet the argument also that provision for comprehensive pacific settlement and for collective restraint of a peace-breaker are undesirable because the *status quo* is in some respects indefensible.

We reject these arguments. We believe that war nowadays is something utterly different in character from what it has been in the past; and we repudiate absolutely the idea that war or the threat of war should be tolerated as an instrument of change.

Of all possible means of change, war is by far the worst: it may create a state of flux out of which new conditions may be shaped (as in Paris in 1919), but in doing so it inevitably creates a situation and a temper in which the good use of new opportunities is most difficult and unlikely. Revision of the *status quo* by war does not by any means ensure that the new settlement imposed by the victors will be more just than the settlement it replaces.

The League of Nations has a duty to make plain to

its Members that they cannot hope to achieve their ends by ways of violence: but the League has also a complementary duty to ensure that its Members can obtain a fair deal, without unendurable delay, if they keep to the ways of peace.

The most difficult task of statesmanship is, of course, to judge which claims for change are well founded and consonant with the general interest, and when and how to attempt to put through those changes by peaceful means.

The extent of the need for change is, we believe, commonly exaggerated in some respects. In particular, the case for territorial change has been exaggerated, partly owing to persistent propaganda from the revisionist side and partly owing to excessive estimates of the importance of national sovereignty and territorial possession. Inflated claims for territorial revision have been made in the case of Hungary. The far-reaching changes already effected in the Versailles Settlement—*e.g.* as regards reparations—are often overlooked.

At the same time, the need to provide for economic readjustment, for solution of problems of population, etc., is very great, and too little effort has been made to deal sympathetically with such issues in good time. Japan's acute problems concerning her rapidly growing population and her industrial development ought to have been generously dealt with before the worsening of the situation by Japanese violence in September 1931. As an example of claims for change which appear to deserve consideration with a view to a settlement that would be accepted by the States concerned as definitive, we cite Hungary's grievances concerning certain territories, small in extent in proportion to the

old Hungary, contiguous to present-day Hungary, and peopled predominantly by persons of Hungarian origin. We believe, too, that some alterations may have to be made, if and when conditions become favourable, in regard to Danzig and the Corridor. We should be glad to see a repudiation of the thesis of Germany's "sole War guilt", in so far as this has ever been responsibly alleged.

Well-calculated timing of the efforts to bring about peaceful change is of course essential to success. If the attempt is made too soon, whilst passions are hot, failure is likely to result. It was prudent, we think, not to attempt, during the first ten or fifteen years after the War, to reopen any of the vexed questions of territorial change arising out of the peace treaties (except, of course, the evacuation of the Rhineland and the transfer of the Saar); for the world's chief need at that time was to settle down and try to make the best of the vast readjustment lately effected. It would be unwise to defer for another period equally long the consideration of all such grievances; but we cordially welcome the statesmanlike agreement, in the German-Polish Treaty of January 1934, which implies in effect that, at any rate for ten years, the question of revision of the German-Polish frontier will not be raised.

On the other hand, if the nations wait too long before grasping the thorny problems such as the political and economic situation of Austria, the population problem of Japan, or Germany's claim to equality of treatment in regard to armaments, they will find that an attempt at solution has presently to be made in worsened circumstances. If claimants contribute patience, the others must contribute understanding and a readiness to make concessions; otherwise, the League will presently have

to deal with claimants so exasperated that they cannot fairly consider compromise, or so menacing that it becomes difficult to offer them concessions.

We submit the following suggestions for easing the problem of peaceful change and developing the League's powers of dealing with it.

(a) *Reducing the Need of Change.*—A good deal can be done to reduce the demand for change by making it less important. To secure the adequate application of the Minorities Treaties, and to make really effective the undertaking given by the nations not bound by any actual Minority Treaty, would deprive irredentist propaganda of a powerful argument. The same applies to economic barriers; if these can be levelled down, and if the League, in accordance with Article XXIII of its Covenant, can "make provision to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all Members of the League", then one of the chief arguments for territorial change will be reduced or eliminated. The extension of the Mandatory principle, and the safeguarding of personal liberty and freedom of opinion, would serve a similar purpose.

Furthermore, it should be possible to help to deflate exaggerated notions of the importance of territorial sovereignty. This country might offer, for instance, to negotiate, with the League's help, as to the transfer of Cyprus to Greece, if the population so desire, with appropriate guarantees for the protection of non-Christian minorities.

(b) *Extending the Permanent Court's Discretion.*—The Permanent Court might be empowered to express an opinion, when giving its legal decisions on the basis of existing law, as to the appropriateness and justice

of the legal position; and such a pronouncement might be given the effect of suspending execution of the judgment pending consideration of the whole matter by the League.

(c) *Decisions on an Equity Basis*.—The most radical method is, of course, for States to entrust to an international authority the task of giving a binding decision, not simply on the basis of existing law, but on broad grounds of equity and balance of advantage. Provision has been made for this in a number of treaties (*e.g.* the Swiss-Italian Treaty). We do not think the Permanent Court is a suitable body for this purpose; and we should view with apprehension the reference to that body of questions involving judgment in political, as distinct from legal, issues. Moreover, we doubt whether any small permanent body, however authoritative, would always be well enough equipped to deal by itself with settlements involving hardly-accepted compromises. We think it may be best in such a case to provide for the appointment *ad hoc* of special commissioners specially empowered by the parties to the case to give an award which they undertake to accept and carry out.

(d) *Compulsory Powers for the League Council*.—Another method, suggested at Geneva, would be to give binding force in the last resort to a unanimous Report by the Council (the votes of the disputants not being counted).

In this connection it may be noted that the Report of the Lytton Commission in 1932, which was in effect an essay in peaceful change by means of impartial judgment, and which was endorsed by the whole League except Japan, would have involved drastic changes of the *status quo* established by treaties. But Japan rejected the proposals. Unless the League's

Members are willing to accept the principle of change effected with the help of a third party's judgment, and are willing also to sustain their obligation to prevent and stop change by violent methods, the peaceful order will of necessity remain defective and liable to explosion.

Article XIX.—Lastly, there is Article XIX of the Covenant, which provides for collective reconsideration of treaties which become inapplicable or of conditions "whose continuance might endanger the peace of the world". This Article is still unused. Under it, enquiry could be made, and the League could then "advise" a solution on the basis of a report under Article XI.¹

That is all that the Covenant actually provides: the League is not empowered to dictate a change of their treaty rights to its members.

We do not believe that there is any short cut to making the League into a federal authority equipped with legislative power for certain purposes. But we observe that the League is not nearly so hamstrung by the rule of unanimity as is commonly supposed. Already a unanimous, or nearly unanimous, Report (not counting the disputants' votes) can have enormous authority and influence. Already, too, the League begins to develop a quasi-legislative function, *e.g.* for the appointment of such international organs as the

¹ Article XI says that (1) "Any war or threat of war, whether immediately affecting any of the Members of the League or not, is hereby declared a matter of concern to the whole League, and the League shall take any action that may be deemed wise and effectual to safeguard the peace of nations. . . . (2) It is also declared to be the friendly right of each Member of the League to bring to the attention of the Assembly or of the Council any circumstance whatever affecting international relations which threatens to disturb international peace or the good understanding between nations upon which peace depends."

Opium Commission, empowered to act within specified limits on behalf of the nations concerned. Almost unnoticed, the beginnings of a structure of world government are being built up, brick by brick.

We think it unrealistic to propose amendment of Article XIX at this time. But we do urge that it should be made plain that questions involving change may be raised under Article XIX, and that the Article (which was originally intended to form an integral part of Article X with its guarantee of territorial integrity) is a living part of the Covenant and is meant to work.

To sum up: provision for change is indispensable; the extent of the real need for change, especially territorial change, must be cautiously estimated; the change must be effected by peaceful means, without menace of violence, and without excessive delay. There are various ways in which the right of States to veto change can be waived, and in which the power to recommend or impose change on broad grounds of equity and balance of advantage can be increased.

(4) COLLECTIVE SECURITY

The security which the community of nations should afford to its members is, as we have already emphasized, two-sided: it comprises both the positive organization of peace and negative action to prevent and repress resort to force.

POSITIVE SECURITY.—As regards the positive security, we have submitted earlier in this chapter some suggestions for an extension of the League's disinterested service to its Members. The most effective form of security should result from making membership of the community so valuable that none will

wish to forfeit that membership or to damage the community.

Economic Nationalism.—No enemy of the League's cause is more potent than economic nationalism: the League's Members have hardly begun to appreciate what benefits they could derive from a development of the economic and financial services of the League, and of the Bank of International Settlements, and through co-operation in applying the principles of Article XXIII of the Covenant about freedom of communications and "equitable treatment" for commerce.

"Moral Disarmament."—There is much to be done in the way of so-called "moral disarmament", including the stoppage of military training of young persons, the suppression of vengeful and embittering tendencies in education, and the inclusion, in the educational system, of teaching on the duties and responsibilities of citizens and their governments in relation to the world community.

It must be remembered that all members of the League have undertaken, in unanimous and repeated decisions of the Council and Assembly from 1924 onward, to see that "in all stages of education" their young people shall be instructed in "the work and aims of the League of Nations" and shall be made "accustomed to regard international co-operation as the normal method of conducting the affairs of the world". This undertaking has, of course, been not merely neglected but actively repudiated by certain governments; but in most countries, however imperfectly it may have been discharged, it is still acknowledged, and a League Committee, with a British chairman, exists in order to help them in carrying it out. One of

the most obvious duties of the British Government is to see that this Committee receives the necessary funds and governmental support to enable it to operate. A system of international tours by education officers, like those of the Health Officers, of the League of Nations, would do much towards establishing a common basis of League education in those countries which are not already given over to militant nationalism.

Minorities.—The organization of peace should include more effective provision than at present for the protection of oppressed minorities: and for understanding treatment, which cannot be uniform, for healing the many injuries and the sense of unfairness still caused by racial discrimination.

Mandates.—The principle of trusteeship which was laid down in the Mandates system of the League should be extended to colonial territories not yet under Mandate.¹

Civil Aviation.—We are strongly of opinion that

¹ There are problems in the colonial, as opposed to the self-governing, Empire which will demand serious attention in the near future. Chief among these is the economic and constitutional position of European settlers in East and Central Africa in relation to the native inhabitants. The Joint Select Committee of both Houses of Parliament recently laid down a number of important principles in defence of native interests and rejected the claim of the white minority to exercise political control over the many million Africans among whom they have settled and who supply their labour. The position thus affirmed is in constant danger of being undermined in practice. Unless a firm and intelligent stand is made in this country upon principles which lie at the core of our national traditions, and which we have applied as occasion required to the Dominions, and are applying to India, it is possible that the entirely opposed set of principles which have been developed in South Africa will gradually extend themselves northwards. Should this occur, when Africans in their turn ultimately become politically effective, a bitter conflict of races would set in. At this moment the British Government has to consider one aspect of this question; for the transfer of the British Protectorates in South Africa to the Government of the Union has been requested. We recognize that reforms of the present administration are called for, and

civil aviation should be developed as far as possible as an international service, under international ownership. We regard this as desirable, not only as a means of preventing the use of civil aviation for military purposes, but also as a necessity for the economic and safe expansion of civil aviation for the general advantage, and as a means of preventing the growth of a perilous nationalistic competition for exclusive air-routes and concessions. We believe that the creation of an international air service, centred if necessary in Europe to begin with, would be of great value as a reminder of the common interest of all nations in ensuring that flying is used to unite civilization, not to destroy it.

Other Contributions to Positive Security.—We have already referred in this chapter to the extension of the renunciation of war, to the need for better provision for determining an aggressor, and to the extended acceptance of provision for peaceful settlement of international disputes, and for developing means of peaceful change. All these developments may well be classed as contributions to positive security against war.

We deal below with another essential element in positive security—the reduction, limitation, and con-

that, in deciding whether—and if so, when and in what form—a transfer of responsibility should be made, many considerations, some of them conflicting, will have to be taken into account. We are glad to note that, at the time of writing, arrangements have just been made for consultation and close co-operation between the Union Government and the present Administration of the Protectorate. But we take this opportunity of urging that, in reaching a decision, the paramount and decisive consideration should be the interest and the wishes of the native peoples of the territories in question, including the securing of those basic conditions which are necessary for satisfactory standards of living and of economic independence.

trol of armaments by international agreement—and with the manufacture of and traffic in armaments.

NEGATIVE SECURITY.—We come now to the question of negative security,—the use of collective coercion to prevent and to stop breaches of the agreed code of peace.

In Chapter XI we expressed the view that such negative security is an indispensable part of the collective peace system, and that League Members were right to accept in advance a share of collective responsibility both for respecting and for preserving the Covenant against violence.

This question of sanctions is so much discussed in this country that we have thought it desirable to set out here our general view about it, before discussing technical questions as to the strengthening of the collective system in this respect or as to Great Britain's proper share in the obligation.

We have asked ourselves four initial questions: (i) If sanctions are to be included in the League's peace system, for what purpose should they be used? (ii) Would such sanctions be morally legitimate? (iii) Would they be politically desirable? (iv) Could they be made technically practicable and effective?

(i) *The Purpose of Sanctions*.—For what purpose should international coercive sanctions be used, if they are to be used at all? In our view, they should only be used to prevent, and in the last resort to stop, a breach of the accepted code of peace; they should not be used for penal purposes, or to enable the victim of the original aggression to dictate his own terms to a broken enemy; nor should they be used in such a way as to involve acts of war in the League's name against a passive but recalcitrant State.

(ii) *The Moral Justification for Sanctions.*—Would such sanctions be *morally justifiable*? Our answer is: Yes, provided that the sanctions are indeed used not to impose a victor's terms but solely to prevent and put a stop to breaches of the peace *with the minimum of lasting injury*. There is now no case in which a nation would be justified in resorting to war as a means of imposing its own will: but if the general renunciation of the anarchic right of war is to prove effective, the community of nations must make the fullest possible provision for the helpful organization of political economic peace and justice, and must undertake collective responsibility for preventing and stopping war. Of course, all kinds of coercion, whether national or international, are an evil; and of course the guarantees of forcible restraint should become less and less necessary and fall more and more into the background: peace and disarmament should become founded more and more universally upon mutual confidence and the simple recognition of community of interests in peace. But the requisite confidence is far from being universal, the requisite disarmament is very far from having been realized, and the danger of violence remains one which society cannot and does not ignore. We are convinced that the inclusion of sanctions in the League's peace system is morally justifiable, because infinitely preferable to the actual alternative in an armed world, and that the loyal and effective maintenance of the system of sanctions as a backing to the League's pacific system is calculated to lead to a great reduction of the sum-total of coercion and to its progressive elimination.

(iii) *The Political Demand for Sanctions.*—Assuming that effective sanctions for this purpose would be morally legitimate, are they *politically desirable*? We

are compelled, if we want to take any share in the responsibilities of political choice, to take into account the actual alternatives between which a Government has to choose at the existing stage of political evolution. We have to ask ourselves, as our Government has to do, whether the elimination of sanctions would, in the actual circumstances (or in such circumstances as we can hope to create within a limited time), contribute better to the evolution of a peaceful world order, in a world still armed to the teeth, than the effective support of sanctions. Our answer is that the inclusion is indispensable both for the safeguarding of peace and for the League's cohesion. If a proposal were made to eliminate from the Covenant all provision for effective sanctions the proposal would be rejected by all or practically all of the League's Members; and if in some way a Power such as Great Britain were to contract out of the obligations concerning sanctions, the result would be most damaging to general confidence and to the prospects of disarmament.

An effective power for the restraint of a peace-breaker is indispensable to the League, not only for coercive action but still more as a means of *preventing* war and as a guarantee that the League's pacific system will be given a proper chance to work. The time to "stop war" is not after it has begun or is on the point of breaking out, but long beforehand. The sanctions can help to prevent peace-breaking, in so far as it is made perfectly clear in advance that the would-be peace-breaker cannot hope to achieve his ends by violence. And the sanctions can serve as a powerful inducement to League Members to do their utmost to make the collective peace system work; for if that system were allowed to break down, the League's

Members would then be involved in the responsibilities and losses of coercive action.

By Article XI of the Covenant, League Members have declared that "any war or threat of war, whether immediately affecting any Member of the League or not, is . . . a matter of concern to the whole League"; and by the Kellogg Pact, nearly every nation in the world has formally taken sides against war, denouncing it as a crime which no national grievance can excuse. This abandonment of the non-moral attitude towards war must have some practical political consequence. If "the peace of nations" is indeed "a matter of concern to the whole League", then the League's Members cannot well be indifferent, neutral, when that peace is violated; if the nations are linked together by the million ties of modern commerce, they will be compelled to choose between maintaining or changing their relations with the peace-breaker—between helping to restrain him or becoming accessories to his peace-breaking. We should not, and we cannot if we would, shirk the responsibility of choice.

If the nations make their choice in advance, definitely aligning themselves against war, then the danger of war will be greatly reduced if not entirely removed; but if the nations withhold their decision until disaster happens or is impending, then the whole work of building up a peaceful order freed from the curse of the armament race will be fatally prejudiced.

(iv) *The Technical Problem of Sanctions.*—There remains the question whether, assuming sanctions to be morally legitimate and politically desirable, they can be made *technically practicable* and effective.

Evidently, if the sanctions are to be effective and practicable for preventing and stopping war, they must be such as to fulfil these three conditions:

- (a) They must be *predictable* enough to serve as a deterrent to a would-be peace-breaker and as an assurance to those in fear of attack.
- (b) They must be *potent* enough to stop the peace-breaking surely, quickly, and with a minimum of lasting injury.
- (c) They must be so conditioned and *limited* as not to impose an intolerable burden upon those who may have to contribute to them.

The sanctions must be *predictable*. If they are to be given their maximum preventive effect, those responsible for applying them must show unmistakably, *in advance*, that they mean business and can be relied on to contribute their fair share to the collective pressure. If it is plain beforehand that the collective guarantee is a reliable one, then confidence can grow where now it is lacking; and if, when a crisis arises, it is shown by a resolute demonstration at the outset that violence will be permitted to accomplish nothing, then in the great majority of cases violence will not be attempted. We are not asked to take sides in advance on the merits of disputes which may arise in future; that would be absurd. What we are asked is to take sides against war as a means of change. Unless we are willing to do that in advance, as a matter of general principle, the war method cannot be eliminated from international relations and British security will continue to be imperilled by international anarchy. If we say to other countries: "You must trust us to do the right thing when a crisis arises, but it is not our Anglo-Saxon way to commit

ourselves in advance", then we shall assuredly make the worst of both worlds.

The sanctions must be *potent* enough to do their work of prevention and coercion. If it is clear that preponderant power will certainly be enlisted against a peace-breaker, then the danger of peace-breaking will be greatly reduced and gradually eliminated. If peace-breaking begins, then, in many cases, a resolute demonstration at the outset, such as would be afforded by a prompt stoppage of war supplies to the peace-breaker and a refusal of financial facilities, imports, and exports, will commonly suffice to call the peace-breaker to a halt. The economic sanctions are obviously preferable to any military sanction: the sanctions used should always be such as to inflict the least amount of permanent damage without loss of effectiveness. But in cases of very serious and determined aggression, economic sanctions by themselves could not be relied upon as a means of carrying through to a successful conclusion the League's restraining pressure; in such cases, the violence is not likely to be stopped by purely economic means, but the economic sanctions will have to be supplemented by the sanctions of armed force.¹

It is not difficult to invent hypothetical cases in which the League, if called upon to restrain some great Power or a group of Powers, might find itself unable to prevent or stop their peace-breaking; perhaps, indeed, the Western civilization that we know will be

¹ Considerable study has been given by the League to questions concerning the application of economic and military sanctions, and of preventive pressure before actual resort to war has been committed. See in particular League document A. 14, 1927, including the Report of the Second League Assembly in 1921, and the de Brouckère Report. See also the Rutgers Memorandum, League Document CAS. 10, 1928.

smashed through such a failure to stop another world conflict. But the task of enlisting preponderant power on the side of the world's code of peace is not an impossible one provided that the sanctions are made part of an international régime in which they are *least likely to be required*, i.e. a régime in which the League's pacific system is fully developed.

That brings us to our third point: the sanctions must be such as to impose *no intolerable burden* upon those who may have to contribute to them. They will become a less onerous burden for their guarantors, and a more reliable assurance to those guaranteed by them, in proportion as the League's system of peaceful settlement and general disarmament is made effective. In a world armed to the teeth, the danger of contributing to sanctions, whether economic or military, must obviously be much greater than in a world in which general disarmament has been carried far. Actually, at the moment of writing, Great Britain has proposed, with France, immediate co-operation in sanctions of the most formidable kind, in the event of unprovoked aerial aggression. It is evident that the dangers of this guarantee would be very great, and its value as a contribution to true security would be very questionable, if the Air Forces of the Powers concerned remained free to expand without limit; if the proposed agreement for the use of air warfare as a sanction is accepted, the situation will necessarily remain extremely dangerous unless the agreement leads to drastic disarmament in the air.

Besides making the sanctions part of a system in which they are least likely to be needed, it is necessary to set realistic limits upon the contribution which each member of the community of nations is expected to bring. We have to determine, broadly speaking, what

constitutes a fair share of the collective responsibility for each country to assume.

As regards States which are not Members of the League, but which are signatories of the Kellogg Pact, the obligation is obviously a very restricted one. We have indicated in Chapter X what are the lines along which we hope that the relationship of the United States to the collective peace system of the League of Nations may develop. We may at least hope that the United States will confer with other countries, through the League, in time of crisis; and that if the United States is satisfied, after such conference, that the peace code to which it is party is being violated, it will do nothing to stultify the sanctions of the League.

As regards Members of the League, the legal obligation to take sides against war is world-wide in range; but the contribution of armed force must of necessity be limited by the geographical situation and by the armaments of the State in question. In other words, there is an element in the sanctions obligation which is universal in scope and an element which may be treated as regional.

This was recognized by the governments which signed the Locarno Treaties. In Annex F of those Treaties, the British Government of 1925 and the other governments concerned declared that, as they understood the position, each Member of the League is "bound to co-operate loyally and effectively in support of the Covenant and in resistance to any act of aggression to an extent which is compatible with its military situation and takes its geographical position into account". Thus, in recommending to us what contribution of armed force should be made by Great Britain "to protect the covenants of the League", the League

Council (on which we are permanently represented) could not expect us to offer armed intervention in every part of the globe regardless of our geographical position; nor could we be expected to increase our armaments for the purpose of contributing to such coercion.

In our view, it would be useful if the British Government would reaffirm, as their interpretation of the sanctions obligation, this definition which was given in Annex F of Locarno, and would seek to obtain its general endorsement by the other Members of the League. The definition indicates a reasonable limitation of our liability.

The principle of "regional" sanctions is to some extent imposed by the nature of the case. If contributions of armed force have to be recommended by the League Council, to supplement economic sanctions, these contributions will generally be obtainable, at least so far as land forces are concerned, only from countries within the region of the trouble. This regional principle may safely be recognized, and can be fitted into the general system of a world-wide League without injury, provided that certain conditions are fully respected. The guarantee of collective coercion must be directed not against this country or that but against the common enemy—the violator of the agreed code of peace-keeping. The main Treaty of Locarno was of course an application of the regional principle, and, in the circumstances contemplated when it was made, the Treaty was perfectly compatible with the fundamental principles of the Covenant. The character of the Locarno agreements, which were designed with an expectation of Germany's co-operation as a Member of the League, will necessarily change if Germany's with-

drawal from the League becomes definitive: but the essential provisions will presumably remain operative.¹

But whilst the principle of regional sanctions may properly be admitted as a brick in the comprehensive structure of the collective peace system, the obligation to take sides against war must be maintained for the League's Members as universal in range. The League's guarantee of support to its Members against a State judged to be resorting to war in breach of its Covenant is, rightly, world-wide.

It is sometimes suggested in this country that, so far as Great Britain is concerned, the obligation to participate in sanctions must in all respects be limited in range to particular areas in which we happen to be specially concerned; and it is suggested that, if the covenanted peace is broken on the other side of the world, Great Britain may properly disclaim any share in the responsibility for restraining the peace-breaker in that distant quarrel. Conversely, it is sometimes claimed that there are certain regions of the world, not British and not specified, which so exclusively concern *our* peace and safety that we may fairly claim there a freedom of action denied to others. In the writers' view, both claims are inadmissible. The obligation of *non-neutrality* is universal in range. And it is specially important, both for national and international reasons, that our country should accept unequivocally, together with other countries, its appropriate share of the world-wide guarantee. The geographical limitation which was

¹ There was no specific time-limit to Locarno; the Treaty is to "remain in force until the Council, acting on a request of one or other of the H.C. Parties . . . and voting at least by a two-thirds majority, decides that the League of Nations ensures sufficient protection to the H.C. Parties; the Treaty shall cease to have effect on the expiration of a period of one year from such decision".

recognized in Annex F of Locarno (see p. 283) applies, of course, to naval forces as well as to other armaments. For our country is the central Member of the most widely scattered Commonwealth ever known; that Commonwealth has more to gain from the assurance of stable conditions of world peace than any other community; and no community can bring a more decisive contribution of naval and economic strength. Real support for the collective peace system by the few Great Powers preponderant in influence, including Great Britain, is a more effectual guarantee than the universal support that is in part unreal.

From this review of the moral, political, and technical considerations, we conclude that effective international sanctions, to prevent and stop breaches of the world's code of peace with the minimum of lasting injury, are morally justifiable, politically indispensable, and technically practicable under certain conditions.

Legal Authority for Economic Sanctions.—It is, we believe, very doubtful whether the Government has at present sufficient legislative authority, under the Treaty of Peace Act, 1919, to impose economic sanctions without delay if the need arises. If this authority is found to be inadequate, an Enabling Act should be passed, empowering the Executive to take promptly the action necessary to fulfil the obligations of the Covenant in this respect, *i.e.* the severance of personal financial and commercial relations with the Covenant-breaking State. It should be established that this duty under the Covenant overrides the obligations of commercial treaties with any particular countries. We assume that the Enabling Act would not cover the contribution of armed force.

Other Contributions to Collective Security.—There are

many other ways, direct and indirect, in which the British Government could with advantage make contributions to collective security.

The Convention on Financial Assistance to States Victims of Aggression,¹ and the Convention for Improving Means of Preventing War² should be ratified: we hope that the British Government will take the lead in bringing this about as soon as circumstances permit.

We have suggested, in the section on renunciation of war, that the Government's negative attitude towards proposals for the better definition of aggression should be abandoned, and that the Government would do well to collaborate in working out a definition, not to be regarded as all-inclusive or perfectly automatic, for use by the League Council. It is important to make plain in advance that certain kinds of action, at any rate, are definitely proscribed by the world's peace code. The definition of aggression will help to establish the prohibition of anarchic international behaviour and the renunciation of the self-judged right of self-defence.

Guarantees for a Disarmament Convention.—One of the most important contributions that could well be made by this country to collective security would be

¹ This Convention is ready to come into force when the general Disarmament Convention is concluded. It provides that, if one of its signatories is the victim of aggression, the others will co-operate in guaranteeing payment of interest on loans which it may need to raise in its defence. The Convention also allows financial assistance to be used as a preventive instrument, before war actually breaks out, provided that the Council "considers that peace cannot be safeguarded otherwise". Thus, the guarantee may be assured to a State threatened with attack, but only after the Council has taken every other step open to it to secure agreement between the disputants, and when the party to whom the financial assistance is granted undertakes for his part to submit the dispute to pacific settlement and to conform to any peace-keeping measures that the Council may propose.

² See footnote, p. 261.

to give fuller support to a system of guarantees for the fulfilment of a Disarmament Convention. We hope that the Government's support will be given unconditionally to the establishment of a permanent Disarmament Commission with adequate authority for the permanent and automatic supervision of the fulfilment of the convention. But in addition we urge that the Government should go further than it has done at the time of writing in the way of acceptance in advance of definite "guarantees of execution" of such a Convention. In its memorandum of January 29th, 1934, the Government proposed provisions for consultation in case of breach or threatened breach either of the Kellogg Pact or of the Disarmament Convention; and the memorandum added that the insertion of these provisions "would emphasize the inescapable duty of all signatories to the Convention to keep in the closest touch with one another and to do whatever is right and possible to prevent or remedy any violation of so important an international treaty". No reference was made to the proposals previously submitted by the French Government on December 5th, 1933, which provided for guarantees of graduated economic and financial pressure against a State found, after due investigation, to be wilfully violating the Disarmament Convention. We hold that proposals so vague as those contained in the British Memorandum¹ were inadequate as a

¹ The British Memorandum of January 29th, 1934, provided for consultation in the event of breach or threatened breach of the Kellogg Pact or of the Disarmament Convention, and added that "It shall be the object of such consultation to exchange views as to the steps to be taken for the purpose of restoring the situation and of maintaining in operation the provisions of the present Convention" . . . The insertion of these articles would . . . "emphasise the inescapable duty of all signatories to the Convention to keep in the closest touch with one another, and to do whatever is right and possible to prevent or remedy

reassurance to those States which look anxiously—perhaps too anxiously—for guarantees of international solidarity in the event of violence or trickery. We recognize, however, that any guarantees that we may give in advance to ensure the fulfilment of the Disarmament Convention must be given in such a form as will not present insuperable difficulties for the United States as a signatory of the Convention; and that the guarantees should only be given in respect of an agreement not likely to provoke an explosion. The Convention must be “self-imposed and freely entered into” by all its signatories, which implies equality of treatment and equality in negotiation; and it must contribute adequately to the true security of the world, which implies a substantial levelling-down of world armaments within a fixed period.

Limitation of Expenditure on Armaments.—Another very important contribution to collective security is the agreed limitation (as well as publicity) of expenditure on national defence. It is impossible to check some kinds of armaments competition by any quantitative limitation; limitation of expenditure is most valuable, not only as a supplement to the limitation of numbers but also as a check on competition in quality of killing power and as a means of verifying the fulfilment of the disarmament agreement. The report of the commission of experts which exhaustively studied this question showed conclusively in 1933 that the limitation of the *total* expenditure of each country on its national defence is practicable with a high degree of accuracy (though of course the suppression of demo-

any violation of so important an international treaty”. No reference was made to the French proposals of December 5th, 1933, for a scheme of graduated economic sanctions to be applied in the event of proven breach of the Disarmament Convention.

cratic government is likely to reduce that degree of accuracy very substantially in certain cases). The French Government attached so much importance to this question that in June 1933 it declared that it "could not regard the [British] draft as the basis of a convention so long as it did not contain, at any rate, the principle of . . . limitation and supervision of expenditure".

A scheme for publicity has been worked out in detail by the Expenditure Commission of the Disarmament Conference, in such a form that it could readily be applied forthwith to limitation as well as to publicity. Publicity would be of substantial value; but we are convinced that it is far from being enough. We urge the Government to support limitation as well as publicity. Italy, which was formerly an opponent of limitation, became a supporter in January 1934. We have some confidence that the United States, which has already accepted the principle of limitation of expenditure on war material (as distinct from total expenditure) would now be willing to accept a comprehensive scheme of limitation if Great Britain were to give a lead in that sense. Germany has in the past been an opponent of limitation of expenditure, but that was to be expected, since expenditure was the one field, apart from civil aviation, in which she was left so unrestricted by the Versailles Treaty that she had "something to sell" at the Disarmament Conference.

We fear that unless expenditure is limited, the restrictions of the Disarmament Convention will only have the effect of redirecting, not of stopping, the armament race; indeed, the outcome will probably be to concentrate attention on the development of new types of weapons if the existing types are restricted.

Moreover, to leave expenditure unrestricted must result in an increase which many will regard as undesirable in the relative superiority of power of the most wealthy nations.¹

Manufacture of and Traffic in Armaments.—We are convinced that the Covenant was right in emphasizing, in Article VIII, that “the manufacture by private enterprise of munitions and implements of war is open to grave objections”. We urge the Government to agree to the fullest measure of international control and supervision of this traffic, including annual inspection on the spot by an international Commission and publicity for all orders for armaments received by armament makers; and steps should be taken, with regard to the manufacture of casualty-producing weapons by private enterprise, to ensure that this shall no longer be a source of private enrichment.

Either the State should take over the manufacture of all casualty-producing weapons, or else a public authority should be constituted which would be responsible for the assembly and completion of all such arms not completed in Government factories.

¹ It should be clearly understood that the proposal for limitation of expenditure is not meant to involve comparisons between the armed strength of one country and that of another country. A country's armament expenditure affords no reliable criterion for such comparisons. No one has proposed that the expenditure on, for example, the voluntary army of Great Britain should be limited by the same standard as that applied to, for example, the army of France, which is largely composed of conscripts. What is proposed is that the average expenditure of country A during a certain period in the past should be taken as a standard by which to limit that country's expenditure during a corresponding period in the future. If, for instance, Britain's expenditure on armaments for five years prior to 1935 averaged £110 millions annually, that figure, reduced in accordance with the agreed reduction of armaments, might be used as the maximum limit for Britain's armament expenditure for each of the five years following 1935.

A special responsibility rests upon Great Britain in this matter, for this country is the largest exporter of armaments in the world. It has been established beyond doubt that the traffic under present conditions leads to grave abuses, including wholesale bribery; and no evidence is needed to show that firms largely engaged in supplying armaments for private profit must desire a continuance of conditions in which there is a sustained demand for their products, and must, with their powerful organization and backing, be in a position to stimulate that demand. The traffic in armaments is now a source of private enrichment to British firms to the extent of some millions of pounds a year; but the injury to the world's peace and confidence which results from this traffic under present conditions is of far greater importance to the public interest than the maintenance of the present system.

The "evil effects" referred to in the Covenant as being attendant upon the manufacture of armaments by private enterprise can be mitigated by a comprehensive scheme of import and export licences, with full publicity, provided that the licensing scheme is coupled with a general limitation of the armaments which each country may possess. But without such general limitation, the licensing system cannot prevent the evils; and we believe that nothing short of the elimination of private enrichment from the armament industry will meet the need of which public opinion in this and other countries is now becoming acutely conscious.

As for the objection that a large private armament industry must be maintained in this country as a means of rapid and efficient expansion of armament production in time of crisis, we refer to the finding of the McKinnon Wood Committee of the Ministry of

Munitions in 1919: "It is also probable that the country will insist on the production of all armaments being confined to Government factories; nor would the disappearance of the larger armament firms materially handicap production in the event of a serious war".¹

International Ownership or Control of Civil Aviation.

—We have already suggested, in dealing with "positive security", that the development of civil aviation as far as possible as an international service would be extremely valuable as a means of promoting the common interest of the world in the efficient and safe expansion of civil aviation. But the international ownership or control of civil flying is urgently needed for additional reasons, as a condition for the abolition of naval and military aircraft and as a contribution thereby to collective security.

We urge the Government to give the most energetic lead possible, without delay, in favour of the internationalization of the great air transport lines in Europe, Asia, and Africa and Australasia, and the international control of all other flying within these areas. We recall that the United States, Canada, Argentina, and Japan offered (April 1933) to submit their civil aviation to regulation and supervision, if the European countries should decide on internationalization or comprehensive control for themselves. We urge that action in this matter should be taken as soon as possible. Every month's delay sees an increase of the military danger and of the vested interests in civil aviation.

¹ C.M.D. 229, 1919. The foregoing paragraphs have been written at the moment when the Royal Commission on the Arms Trade is beginning its sessions. The work of the Commission will doubtless throw light upon all these questions.

We note that plans for this purpose have been carried much further during the Disarmament Conference than is generally recognized. We welcome the lead that was given by the French Government and others in the Air Commission in February–March 1933, and by the Spanish Government, which submitted twenty draft articles to the Conference on May 27th, 1933. These articles have not yet been considered: the Air Commission has not met since March 17th, 1933, although it was decided, in the Conference's resolution of June 8th, 1934, that the Air Commission should resume its work. We most strongly urge that the British Government should not be content with pointing out, as its spokesman did in the Air Commission in 1933, the difficulties in the way, but should bend its energies to assisting with all its resources in the completion and application of the plans already prepared. We cordially welcomed the proposal in the British Government's draft convention of March 1933 that the Permanent Disarmament Commission should devote itself immediately to working out "the best possible schemes providing for (a) the complete abolition of military and naval aircraft, which must be dependent on the effective supervision of civil aviation to prevent its misuse for military purposes. . . ." This admirable policy was maintained in the Government's memorandum of January 28th, 1934, which invited Germany to suspend her claim to possess military aircraft for two years, during which the policy of abolition of military aircraft and the control of civil aircraft would be studied. If this policy is not to be exposed to charges of insincerity, the Government must show itself helpful and energetic in contributing to the radical solution of the problem of controlling civil flying. It would be

cynical to formulate such a policy and then to argue that it is an unrealizable policy owing to the impossibility of making the control of civil flying 100 per cent "effective" as a guarantee against abuse for military purposes. No such control, of course, can be made absolutely effective; but a courageously planned international scheme, such as the Government of France has repeatedly advocated, coupled with abolition of the national air forces, would create an incomparably greater security for the world than any anarchic scramble for air power by competing nations such as we now witness. The range of aircraft is already far too great for the convenient or economic development of civil flying by each State separately, especially in Europe: and the power of aircraft to destroy is far too great for the safe development of civil flying as a national resource. The development of aviation for world service, under international ownership, would do much to remove the greatest of the new dangers overhanging civilization, besides giving to the world community a new asset and a sign of solidarity.

An International Air Force.—It is strongly urged, by the French Government amongst others, that, as a condition for the abolition of national Air Forces and as an additional security (besides the internationalization of civil aviation) against abuse of civil aircraft, an international Air Force should be created. We assume that agreement upon the all-round abolition of national air forces will be unattainable unless provision is also made for some kind of international control of civil aviation: and we recognize that such control may in its turn prove unacceptable to some countries unless coupled with provisions for some kind of international air force. In that case, we urge our

Government to consider without prejudice the case for establishing, as a corollary to the abolition of the national air forces, an international air force with the limited function of preventing misuse of civil aircraft.

To sum up the conclusions of this section: We believe that the foundations of peace must include positive schemes of international collaboration and not only the authority of law or force. *To prevent war, it is necessary to make peace desirable.* But we believe also that it is indispensable to provide in advance for economic, and if necessary military, co-operation to restrain a State with the minimum of injury, if it violates its undertakings not to resort to force. Provision must also be made for co-operation to restrain a State which violates an agreed disarmament treaty.

We believe that the British Government should take the following steps amongst others as a contribution to collective security and in order to facilitate general disarmament:

- (a) The Government should take steps to restore confidence in its loyal and effective fulfilment of its security obligations under the Covenant and the Locarno Treaty. It might well reaffirm Annex F of Locarno.
- (b) It should accept for Great Britain all those provisions for international supervision of armaments by a Permanent Disarmament Commission which are deemed desirable for others; and it must go beyond an undertaking to consult with others in the event of a violation of a Disarmament Convention, so that the country's engagement to co-operate effectively in restrain-

ing the violator may be unmistakable at the outset.

- (c) It should accept limitation of total expenditure on national defence, as well as publicity.
- (d) It should agree to the fullest international control and supervision of the manufacture of and traffic in armaments, including inspection on the spot, and should take steps to ensure that the manufacture and traffic is no longer a source of private enrichment.
- (e) It should press for joint action so that civil aviation may be transferred by every nation to world ownership, thereby relieving each country of a grave peril and giving the world a new asset.
- (f) It should consider without prejudice the creation of an international Air Force under certain conditions outlined on page 296.

(5) DISARMAMENT

The danger of the armament race now in progress can hardly be exaggerated. The world's armaments are now greater in quantity, and are increasing more rapidly, than in any time of peace in history. The peace-time cost, also, is heavier than ever before and is very rapidly increasing despite the continued economic depression. British expenditure on armaments is now heavier than it has ever been except during the War period, and the present total appears certain to increase if present policies are maintained. As for the quality of armaments, the weapons of to-day, compared with those of 1918, can inflict damage immeasurably more swift, widespread, and destructive.

The most valuable of all contributions to the world's

peace and prosperity would be the conclusion of a General Disarmament Convention adequate for the beginning of the limitation, reduction, and control of armaments. At the moment of writing, it seems possible that the Franco-British proposals of February 1935 may open the way for negotiation with Germany about such a Convention on a footing of equality; and we believe that a Convention of substantial value might even now be achieved, granted resourceful British leadership and granted certain indispensable changes of policy. We recognize, however, that very serious errors have been made by the governments during the Disarmament Conference, not least by the French and British governments; and we particularly regret the failure to come to terms with Germany, as regards her just claim to equality of rights, whilst circumstances were relatively favourable, and the failure to come to terms with France in good time as regards the various methods of contributing to collective security. Now, in the grave situation that has resulted, great determination and resource will be needed if a Disarmament Convention worthy of the name is to be retrieved from the wreckage of earlier hopes.

Objectives.—In the following review of policy for a Disarmament Convention, we assume that the *ultimate* objective should be to get rid of all armaments except such as may still be genuinely required for preventing and stopping breaches of the public peace. Disarmament is not an end in itself but a means to peace and confidence; the actual reduction of armaments must be so timed and co-ordinated as to leave always on the side of the peace-keeping community of nations a power preponderant over that of any individual nation. The *immediate* objectives should include:

Limitation of armaments, as comprehensive as possible, including limitation of total cost, so as to put a stop to the present armaments race;

Reduction of armaments, including the general abolition of such weapons as specially lend themselves to sudden smashing attack;

Supervision of the fulfilment of the Convention, including the establishment of a Permanent Disarmament Commission and a system of periodic inspection on the spot;

Guarantees of collective action to prevent and stop breaches of the agreement; and

Measures to prevent the evil effects of the unregulated manufacture of and traffic in armaments.

Conditions of Success.—We assume that these objectives will continue to prove unattainable unless the following conditions are fulfilled:

- (a) *Collective Security.*—The Disarmament Convention must be linked with a collective peace system which affords reliable assurances of collective action against aggression and against evasion or stultification of the Convention.
- (b) *Equality.*—The Convention must be based on unequivocal acceptance of the equality of rights of its signatories; Germany should be treated as a free and equal partner in the negotiations, on the assumption that the discriminatory disarmament régime of Versailles is to be replaced by a new agreement applicable equally to all signatory States and that Germany will then be subject to the same principles of disarmament and security as other countries.
- (c) *Reduction.*—The claims for equality and security

must be combined with real reduction of armed strength, including a real surrender of secrecy and the power of surprise.

Unless the governments concerned, including our own, are willing sincerely to accept these conditions, as the price of a general agreement, the race in armaments will inevitably continue, with consequences disastrous to the world's prosperity and eventually to peace itself.

Without attempting here an adequate review of the various proposals for a Disarmament Convention or of the circumstances in which such proposals may be made acceptable, we submit the following comments as an indication of our point of view.

Man Power.—As regards man power, we support the principle of the British Draft Convention of March 1933, so far as it goes; viz. that the Home Service Armies in Europe should be standardized with a view to limitation and reduction of the numbers and periods of service of the men.

Material.—As regards weapons, we recognize with the keenest regret that the governments chiefly concerned have now, to a great extent, missed the opportunities which were opened to them earlier of reaching a general agreement on the levelling-down of armaments on the same principles as those which were imposed on Germany. Rearmament is now taking place on a perilous scale; the way of levelling-up rather than the way of levelling-down has been chosen.

Since weapons of war are not going to be abolished entirely at one stroke, it is necessary to agree to some principle upon which the piecemeal reduction can be based. President Roosevelt in May 1933, and again

on December 28th, 1933, broadly indicated the general principle which should guide this piecemeal reduction. "Let every nation agree", the President said, "to eliminate over a short period of years, and by progressive steps, every weapon of offence in its possession, and to create no additional weapons of offence." We recognize, of course, that the phrase "weapons of offence" may seem unduly vague; but we were glad to note that the President specially cited (May 16th, 1933) "war planes", tanks, heavy mobile guns, and poison gas amongst such weapons. We recall also that these and other weapons were selected by the Allied and Associated Powers for prohibition in Germany's case, "beyond all question" (as Sir John Simon said, April 22nd, 1932), "because they were regarded as arms singularly calculated to assist attack against national defence". We also recall the declaration of Mr Norman Davis (May 22nd, 1933), "that the ultimate objective should be to reduce armaments approximately to the level established by the peace treaties; *i.e.* to bring armaments as soon as possible through successive stages down to the basis of a domestic police force".

We urge the British Government to return to and support the principle thus indicated.

Land Material.—As regards the material of land warfare, we welcomed the proposals of the British Government (in March 1933) for abolition of guns over 6 inches calibre (though with important reservations); and we welcomed so far as it went the proposal for non-replacement of guns over $4\frac{1}{2}$ inches calibre. These proposals would represent a strengthening of the power of defence at the expense of attack. We much regret, however, the omission of any provision for limitation of the numbers of guns retained. To leave the number of 6-inch

guns unlimited (as implied in the British note of January 29th, 1934) would be to leave far too great a power in the hands of the attacker.

We attach special importance to the general abolition of tanks, and we regard as unconvincing the arguments which have been advanced by the British and French governments, almost alone against the world, in favour of retaining these potent and rapidly developing weapons of offence. We urge the British Government to support the policy of the United States and the great majority of other governments in this respect. If, despite British advocacy, it were still found impossible to secure the agreement of France or Japan or Poland (the only other countries still supporting retention), then we urge limitation of numbers, as in the revised British Draft Convention of 1933, and the limitation of tonnage of the individual tank to a maximum much lower than that proposed in the revised British Draft (*i.e.* 16 tons unladen).

Air Material.—As regards naval and military aircraft, we warmly welcomed, as already stated, the Government's proposal in the British Draft Convention for the abolition of all military and naval aircraft, provided that a scheme for effective supervision of civil aviation is worked out so as to prevent misuse for military purposes. We are convinced that this is the only adequate policy for meeting the great dangers to the world and especially to our country that result from the development of flying as an instrument of war. Limitation of air armaments, coupled with supervision, would be preferable to the wholly unlimited competition now proceeding; but we shall deceive ourselves if we suppose that any mere limitation will suffice. If the Air Forces of the Great Powers were to be limited numerically to, say,

500 first-line aircraft apiece, each Air Ministry would argue, not without some reason, that its problems differed entirely from those of any other Air Ministry, so that the number fixed for the national force would be inadequate: each would seek, naturally, to make its permitted force as perfect as possible within the permitted limits, so that the development of killing power from the air would continue: and each would seek, of course, to make ready the means of multiplying its perfected types of aircraft *ad lib.* on the word of command. The radical policy is in this case the only adequate policy, as has been recognized not only in the British Draft Convention but by the governments of France, Germany, Russia, Spain, the United States, and other countries. No increase of the national Air Force, no "parity", however dearly bought, will suffice for the reliable defence of our cities and other vulnerable centres, or those of other countries, against devastating air attack in thick weather. The invention of the small incendiary bomb is by itself enough, or should be enough, to compel the nations to deal collectively and radically with their common danger from the air.

We consider it to be of the utmost importance that, at a time when Air Forces are being very rapidly expanded, the discussions on air disarmament should be resumed. As was pointed out on p. 294, the work of the Air Commission of the Disarmament Conference has been suspended ever since March 17th, 1933. The case for resuming negotiations on the basis of full equality of status for all the negotiating parties has been made stronger and clearer than ever by the developments which have just occurred when we write (May, 1935). It is now perfectly clear that agreement can only be reached if the principle of "parity" in Air Forces between

the Great Powers of Western Europe is unequivocally accepted. We do not here discuss the technical merits of this claim to parity: we merely note, as a governing fact, that the British and German Governments are alike in insisting upon it. That being so, we stress the point that British policy should now be directed with the utmost resolution and resource towards securing that this parity shall be fixed at the very *lowest* level that the Powers concerned will accept. Prompt advantage should be taken of the new opportunity now afforded for resuming negotiations: and it may well be found, when discussions begin on a footing of real equality of treatment, that the avowed determination of each of the principal Powers involved to have a national Air Force not inferior to that of the others, may make agreement more practicable than hitherto.

We note that the Air Estimates for 1935, whilst they offer a depressing prospect of a sustained increase of armaments, express the hope that the proposed Air Pact for Western Europe may "facilitate early limitation of the Air Forces of the world by joint international agreement". We believe that unless limitation and drastic reduction is the sequel, no such Air Pact will avail to restore confidence or avert the growing danger and apprehension. And we reaffirm our conviction that the only policy which will afford adequate security against air attack is the policy, sponsored with certain conditions by the British Government and many others, of total abolition of national Air Forces.

Naval Material.—As regards naval material, we should like to see, at this stage, the general abolition, or failing that the non-replacement, of all warships over 10,000 tons (the Versailles figure); but we consider that a lower maximum, if obtainable, would be far pre-

ferable. We desire also the abolition of aircraft carriers and the abolition of submarines. As regards cruisers, we should profoundly regret a proposal by the British Government to increase the number of under-age cruisers permitted to this country from fifty to seventy; and we reject the doctrine of "absolute requirements" to which the Government has lately reverted.

We recognize, however, that it is impossible to separate the technical aspects of disarmament from their political background. It is useless to attempt to answer the question "What armaments do we need?" without first answering the question "What are the armaments for?" At the present time Japan has violated the Covenant, the Kellogg Pact, and the Nine-Power Treaty, and she has denounced the Washington Treaty. She has thereby outlawed herself for the time being from the collective peace system of which those treaties were expressions. When the Washington Treaty lapses owing to Japan's denunciation, the clauses which preclude fortification of the Pacific islands will lapse (unless they are renewed by some other agreement in the meantime). "The collective system is", to quote General Smuts, "probably the most beneficent of all post-War changes in international affairs, and its weakening or destruction might involve dangers the magnitude of which none can foresee to-day." In these circumstances, and in face of the prospect that Japan, under her present rulers, may continue to pursue a policy of aggressive violence in Asia, the desired reduction of naval armaments may unfortunately prove inexpedient for the time being.

We urge that in the working out of the British programmes for the fighting services, especially for the Admiralty, the principle should be unshakably established

that this country will not resort to force in contravention of the collective peace system. But we urge also that the advantages that this country may hope to derive from its membership of the collective system should be adequately realized and explored. We hope that the Committee of Imperial Defence will work out, if it has not already done so, the modification of the national armament programme, *e.g.* as regards cruiser-building and the defence of our sea-borne supplies, which should result from co-operative action with the navies of other Powers. Consideration should be given not only to the prospect of active support by some Powers but also to the prospect of a passive but benevolent attitude by the other loyal members of the League.

Supervision.—We attach great importance, as we have said, to the unqualified acceptance of permanent and automatic supervision of the disarmament agreement and of the trade in arms, for all countries alike, by means of a Permanent Disarmament Commission. This would include a system of annual inspection on the spot by the international authority.

We believe that it will be found necessary to include in a general Disarmament Convention specific guarantees of collective action to prevent and stop proven breaches of the Convention. We consider that Great Britain should accept more specific guarantees than those indicated in the Government's memorandum of January 29th, 1934.

The Prospect.—The prospects for an agreed Disarmament Convention which would be adequate to the world's need are certainly far from bright. Nevertheless, we cannot yet believe that all hope of a Convention such as would be of substantial value as a beginning

need now be abandoned. At the moment of writing, the British and French Governments have lately proposed a development of the guarantees of Locarno, to cover sudden attack from the air. It is possible that this new move may lead to an unequivocal acceptance at last of the principle of equality of treatment and equality of negotiation in dealings with Germany. It is possible also that it may lead to a more unequivocal acceptance of the principle of collective security. And along these lines it may lead to a Disarmament Convention which would satisfy and reconcile, however inadequately at this stage, the demands for limitation, reduction, and control of world armaments. What is certain is that delay and defeatism will only aggravate the difficulty of making an agreement and the dangers resulting from the growing race in armaments. Another attempt to conclude a general Disarmament Convention should be made with vigorous British leadership. Britain can only give that lead if her Government's policy in future conforms more nearly to the policy we have outlined above.

EPILOGUE

WE have joined in submitting these proposals because of our concern lest failure in political leadership should threaten Democracy. It was this which caused many of us to sign the Manifestos on Liberty and Democratic Leadership that were issued last year.

We are divided in so far as we belong to one or other of the main political parties, but we are united in believing that nothing is at present more important than to reveal how wide is the measure of agreement that can be assembled on an immediate programme. At no time in British political history have so many minds been turned to the complete reorganization of our social and economic life and to the promotion of a policy of international reconciliation. However true it may be that this is an age of crisis, men are convinced that it is also a time of unparalleled opportunity.

Speed has become an essential quality in any programme of political action. Leisurely politics will only lead to a sense of frustration and despair. The public is profoundly distressed by the volume of present-day misery. There can be no more dangerous threat to Democracy than complacency at a time when so many millions of our people are burdened with poverty or unemployment, and yet are convinced that society can be more sanely organized.

We have called for a coherently planned reconstruction of the nation's economic life, for readjustment of

the social order, for preservation as well as imaginative development of the land we inherit, and for a vigorous effort to strengthen the collective peace system. We have urged this, believing that, unless such an effort is made, and made soon, the new opportunities of enriching man's life and leisure will remain half-explored or wastefully exploited, and this civilization may be maimed or smashed by war.

We have been concerned in this book solely with defining some of those policies that we wish to see applied during the lifetime of the next Parliament: we have not attempted, and will not now attempt, to deal with the further question of how the machinery of democratic government should be improved so as to work more efficiently and speedily. We are convinced, however, that the machinery of government can and should be developed in such ways as to allow of effective leadership and prompt action, together with the vigorous growth of democratic responsibility.

The principle of government by consent and free discussion must be made much more fully operative through the extension of education—that cardinal function of a democratic State; through the improvement of the system of representation, and through the further breaking down of barriers of class and privilege.

But even now it does seem fair to claim that the people of this country, besides having won and guarded an unexcelled measure of liberty, are in a better position than any other people to demonstrate the value of the democratic method of "government by persuasion".

Improvements in the machinery of government are without doubt required, but no mere alteration, still less multiplication, of machinery will suffice to ensure

the carrying out of such a programme as we advocate: the machinery must be used to the full, with resolute and courageous leadership, and it must be used in a democratic temper, with reliance on methods of persuasion and free discussion. The machine of government must be directed by democratic leadership.

In a world half strangled by economic nationalism, bewildered and thwarted by the breakdown of its international monetary system, menaced by the tension between "have" and "have-not" sovereign states, and now surrendering itself to a mad piling-up of menace against counter-menace in the air,—in such a world, dictatorship has been widely adopted as a means to effective leadership. But we have written this book in the conviction that leadership and democracy are not incompatible, and that the surest foundation for creative leadership is an educated democracy. Our country, if it will guard its liberties and vitalize its democracy, extend its education, and accept the responsibilities of leadership may serve the world by its example.

APPENDIX

FIRST MANIFESTO

ON

LIBERTY AND DEMOCRATIC LEADERSHIP

PUBLISHED FEBRUARY 1934, WITH 150 SIGNATURES

THE modern world is confronted by a new wave of violence in political thought and action. Democracy is again at stake. The struggle for liberty is once more a vital issue.

Political movements are rapidly spreading, whose members are prepared to use violent methods both for the pursuit and the retention of power.

Organizations of a semi-military character, exacting a strict discipline from their adherents, displaying a uniform of coloured shirts, employing common symbols and a new form of salute, have grown in some countries into vast private armies which have usurped the functions of both the police and military forces of the State.

When once in possession of the machinery of government they ruthlessly suppress any manifestation of criticism or opposition, applying the methods of the Inquisition to political opinion. To this end they employ not only physical coercion, but all the devices of propaganda, reinforced by their monopoly control of the Press, the wireless, and every other organ of opinion.

.

Hitherto in this country we have retained our traditional regard for public order, personal liberty, and freedom of thought and discussion.

But there have recently been signs in some quarters even here of a readiness to appeal to passion and violence in place of reason and persuasion. Parades of Fascist Blackshirts are not infrequent; their intimidating behaviour and mobilization at

meetings are already on the way to becoming a public nuisance, and could, if unchecked, prove a menace to free speech.

The Communists also, though less military in their organization and demeanour, are no less militant in language, and speak and write in terms of revolutionary violence.

Moreover, Fascists and Communists alike pour scorn upon democratic institutions and advocate their displacement by dictatorial methods.

Even among the orthodox political parties there is a disposition to evade Parliamentary control instead of insisting upon the improvement of Parliamentary procedure.

.

The alternative to these freely canvassed methods of violence and dictatorship is not, as some despairingly imagine, a supine resignation to slow and timid measures of advance, which have hitherto been associated with the functioning of democracy.

We believe that there is an increasing number of men and women in this country of all parties or of none, who would be prepared to see the Parliamentary machine used for swift and far-reaching measures, both of international and economic reorganization, if the programme of such measures were submitted to them on its merits alone, with a view to meeting scientifically the demonstrable needs of the situation.

They are alienated by threats of revolutionary action or arbitrary repression; but they are ready to respond to a bold lead in which they are asked for intelligent co-operation and not browbeaten into unintelligent submission.

It would be a disaster if so unrivalled an opportunity were ruined for lack of such leadership.

.

The task of reconstructing the world since the War has become intensely intricate, and will demand a degree of conscious design in the economic life of the State and in the dealings of nation with nation, to which we are only slowly becoming accustomed.

But we now have the advantage of a public which is exceedingly attentive, and for the most part passionately anxious that the work should be well done and done courageously and swiftly.

The abandonment of reason and persuasion would mean the unloosing of the passions of fear and hatred, of wild hope and wilder despair, with the result that the welfare of the nation would be at the mercy of tempestuous changes of feeling and opinion.

Unless our new and vast electorate is treated seriously, it may in desperation take refuge from its problems in the false security of dictatorship.

.

We, for our part, believe that power of action can be given to a democratic State, whilst at the same time liberty is preserved to the individual citizen. If modern democracy is to survive, the electors must not be threatened or played down to; they must be informed, convinced, and led.

For this purpose we need a political method which combines:

- (1) A profound conviction of the supreme importance of liberty.
- (2) An appreciation of the urgency of securing peace and justice by reorganization without delay in both international and national affairs.
- (3) A determination to work through democracy, as the primary safeguard of liberty.
- (4) A conception of leadership that involves treating democracy with a new respect, offering scientific schemes of a far-sighted and far-reaching order, commending them by the methods of reason, and asking that they should be judged on their merits alone.

.

We believe that at this moment we have in Britain a public that is anxious beyond all precedent for calm, efficient, and active leadership of this type. This public is ready to respond

to the methods of reason by supporting a courageous, constructive, and democratic lead.

By this way, and not by the way of violence, can an opportunity be afforded for applying to our economic life the principles of order and design without the sacrifice of spontaneity and freedom.

SECOND MANIFESTO

ON

LIBERTY AND DEMOCRATIC LEADERSHIP

JULY 1934

The plea for "Liberty and Democratic Leadership", to which many of us set our names, has evoked a nation-wide response of great political significance. We are now called upon to define its implications.

Within the limits of a short statement we cannot hope to set down a complete political programme. Moreover, leadership in these days is no mere affair of programmes: it is an attitude to power; a belief in the public; a willingness to take risks in time of peace and not only in time of war.

We have therefore chosen four major issues to show why we believe that courageous and constructive leadership is vital to the politics of democracy at this critical moment.

I. *Violence or Persuasion*

Government by discussion must not give way to government by force. With a view to arresting those sinister policies of violence which already threaten our political life, we demand that the Government shall at once take powers (to be employed as it may seem expedient for the preservation of order) to prohibit private armies and the wearing of uniforms or other

distinctive articles of dress when these are used to indicate political opinions.

II. Speeding up the Machinery of Government

But the peril of dictatorship will remain unless the institutions of democracy can be made into effective instruments of government. We must restore the electors' confidence in Parliament and enhance its value not only as the home of free discussion but as a council of action for national reconstruction. British politics must become an adventure in positive achievement.

The Cabinet should be directed by a nucleus of Ministers, freed from departmental work and responsible for initiating major lines of policy. The whole membership of the House of Commons should be mobilized so that committees of Parliament may simultaneously complete the detailed working-out of measures which have been approved in principle by the House. Orders in Council may rightly be employed, provided that their reference is clearly circumscribed by Parliament, and the subsequent regulations are submitted to a reviewing body with due safeguards for appeal to the Courts or to appropriate tribunals. The business of government itself must be decentralized. We must not hesitate to entrust greater administrative power to bodies specially created to carry out the express will of Parliament. This will involve the extension of the powers of local authorities, the creation of public corporations to conduct public services, and the setting up of economic and industrial boards of control, responsive to public authority.

But it is even more important that any Government, bent upon calling out a new response from democracy, should itself make use of a new technique of parliamentary leadership. It must try out new methods and initiate experiment. It must honestly seek the aid of all opinions and welcome constructive criticism. It will not attempt to dictate or to evade control. It will respect the right of Parliament to reject its policy by a direct vote of no-confidence, but it will appeal to the elector rather than compromise the remedies in which it believes.

III. *International Peace and Security*

Nothing can illustrate more clearly the imperative need of leadership on the part of the Government than the problem of world peace. We desire to make clear our belief that the foundations of peace must be built upon positive schemes of international collaboration, and not merely upon the authority of law or force. But there is an immediate need, which public opinion demands shall be satisfied—the signing of a disarmament treaty. The nations have hitherto declined to disarm because each has felt insecure. The power and prestige of our nation gives us a peculiar responsibility to exercise leadership on this key-problem of disarmament and international security.

The choice lies between the risks of the collective system and the risks of competitive arming. All the great States, including our own, have decided to base national defence upon armed power. They have rejected unilateral disarmament. Therefore there remains but one question. Shall armed defence be through the method of each for himself, with such allies as he can win to his side, which means an armaments race with the menace of a new war, or shall it be through the method of economic and military co-operation to restrain a state which violates either an agreed Disarmament Treaty or its specific undertakings not to resort to war?

If any Disarmament Convention is ever to be signed and an international order given a chance of life, the British Government must take these steps:

- (a) It must accept for Great Britain all those provisions for the international supervision of armaments and expenditure thereon, which are deemed to be desirable for others.
- (b) It must go beyond the point of mere “consultation” in the event of such violations as we have indicated, and make the country’s engagements unmistakable from the outset.
- (c) If obligations are broken, it must press for collective action by every means available, including economic embargo, before a final resort to armed co-operation.

- (d) It must agree to joint action so that Aviation may be transferred by every nation to world ownership, thereby relieving each country of a grave peril and giving the world a new asset.

In addition, we urge the Government to agree to international control and supervision of the traffic in armaments, which should no longer be a source of private enrichment.

IV. Security and Prosperity at Home

The familiar paradox of dire poverty in the midst of plenty presents the sort of challenge to capacity for national organization which President Roosevelt has accepted, but our own Government has declined.

The people of this country demand "a new deal". We believe that they will respond at once to a Government that offers leadership in a war against poverty and unemployment, against overcrowding and disease.

The Housing Problem is one outstanding illustration of the need for decisive leadership at home. When, in circumstances of much greater material difficulty, a vast munitions industry had to be improvised from the ground up, means were found for applying the resources of the country as a whole to the filling of an urgent need. In the case of munitions both labour and materials were lacking; in that of houses both are present in abundance. Much capital is now lying idle. The task must be entrusted to a public corporation operating on a national scale. It would bring together the factors of production, rapidly reduce unemployment, revive numerous industries directly and indirectly connected with the building trade, raise the standard of living of the worker by providing homes at low rents, and (in striking contrast to the debt incurred by unproductive war expenditure) provide a valuable national investment by creating tangible assets for every pound spent.

We have only to apply the single example of housing to the wider economic field to make clear how the immediate need can be met. The problems of over-production and idle plant,

of distribution and marketing, cannot be solved while all these factors are left unco-ordinated. Nor can the taxpayer bear the burden of relief by ever-increasing cash payments. Only the State can insist upon the necessary internal reorganization of industry, link the machinery of production and distribution, mobilize financial resources now lying idle, and thereby stimulate and organize effective demand. The deliberate control of monetary policy has indeed become of primary importance in any attempt to bring order and design into our economic life. Given decisive leadership, our highly developed monetary, banking, and investment system can readily be made a powerful instrument of national recovery. We urge the Government to pursue a much bolder expansionist credit policy under public control and to create adequate machinery for bringing idle funds into active circulation. To make this policy effective it is imperative that the State should in future plan not only its annual estimates, but a long-term budget unfettered by short-term deficit and surplus.

With the nation's wealth thus made available for deliberate use, the problem of poverty and the problem of unsaleable surplus commodities can be attacked immediately and simultaneously. We therefore call upon the Government to stimulate consumption by the bulk purchase of surplus necessities which now go to waste—fresh milk and meat which cannot be sold, fish dumped back into the sea, fruit and vegetables which are allowed to rot. Such purchases could form the basis of an organized system of distribution in kind through existing public services, as, for example, the provision of milk and fruit for school children. By these and other methods a measure of control over the market could be secured, together with the maintenance of a more stable price-level.

A Government which was prepared to undertake these tasks would not hesitate to grapple with many others, for having once mobilized the finances of the nation, it could at once determine to shorten the hours of labour in industry and to withdraw children from the labour market.

Conclusion

We who sign this plea that violence shall be rejected and leadership be given belong to many parties. We have confined ourselves to a few issues only, because we are concerned not to put out a comprehensive programme, but to illustrate by a few examples the kind of action that a Government possessed of leadership would pursue. We none of us surrender our special views as to the manner in which society should ultimately be organized. Without necessarily committing ourselves to every detail of policy, we unite in urging that proposals on the lines we have indicated be adopted, for in this way we believe that liberty can be retained, democracy rekindled, and human suffering relieved.

